FINANCIAL TIMES

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Broad principles may be agreed next week
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Struggling to compete with the reinsurance market
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Accidental Theorist
Economics guide for the perplexed
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Asia fears hit world stock markets

Concerns over economic problems halt record-breaking run on Wall Street

By Philip Coggan and John Ridding

Worries about Asia's economic problems sent world stock markets into a spin yesterday, prompting an end to the record-breaking run on Wall Street and in Europe.

The US stock market had started to slip on Tuesday, when the Dow Jones Industrial Average fell 150 points, and investors' confidence was dented further yesterday by a sharp drop in the Hong Kong market.

The Hang Seng index fell 5.3 per cent after Tung Chee-hwa, the territory's chief executive, said economic growth would fall substantially and could even be negative.

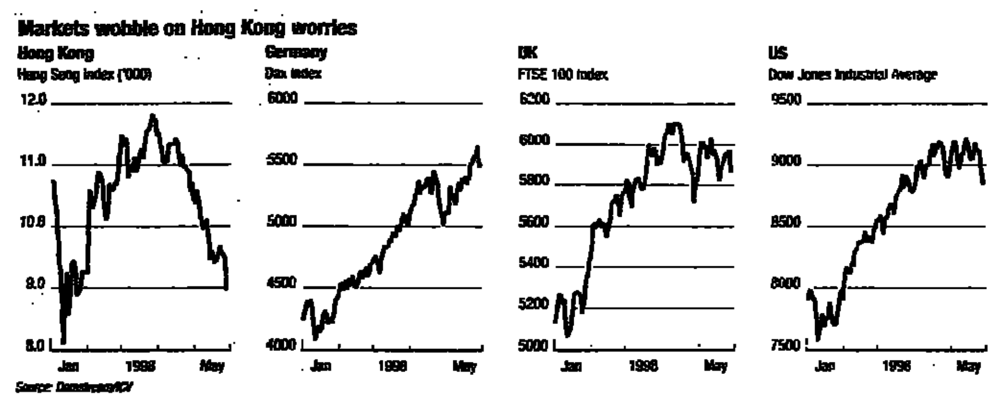
First quarter growth figures due tomorrow are expected to show a fall in output and to signal the territory's first recession since 1985.

Investment analysts said the government appeared to have waited until after this week's legislative election to signal the severity of the downturn. Last weekend Donald Tsang, financial secretary, said he saw no need to revise his forecast of 3.5 per cent growth for the year.

Meanwhile, the continued weakness of the Japanese financial system was illustrated when Moody's reduced its credit ratings of five Japanese banks, including Bank of Tokyo-Mitsubishi and Dai-Ichi Kangyo Bank, after the sector's recent set of poor results. The Nikkei 225 average fell 220.53 to 15,664.29.

Analysts said the fall of the Japanese yen, which hit a seven-year low against the US dollar on Tuesday, may have sparked the sell-off.

Joe Rooney, global strategist at Lehman Brothers, said: "Trouble has been brewing under the surface for a few weeks. The weakness of the yen is a threat to Japan's Asian competitors such as Thailand and Korea and raises fears of a Chinese devaluation, which puts pressure on Hong Kong. Wall Street has fallen in response to the deterioration of conditions in Asia."



Evidence of Asia's problems revived worries that economic, and corporate earnings, growth in the US and Europe might be adversely affected.

The crisis in Russia, where the central bank trebled interest rates to defend the rouble, also dented sentiment. Europe's stock markets fell by around 2-3 per cent, with the FTSE Eurotop 100 index dropping 63.8 to 2,812.42. In London, the FTSE 100 index fell 100.5 to 5,870.2.

Wall Street gave another downward twist to the spiral when it opened lower in response to falls in the rest of the world. By 1pm New York time, the Dow Jones Industrial Average was 106.12 points, or 1.2 per cent, down at 8,857.61.

Turbulence also continued to hit the Brazilian market which, having fallen 5.8 per cent on Monday, was down 3.6 per cent by early afternoon.

Some analysts felt the fall in European markets was an inevitable setback after their recent strength. Before yesterday the FT/S&P Europe index had risen 27 per cent since the start of the year, in dollar terms, and 53 per cent since the start of 1997.

Ian Harnett, director of European strategy at BT Alex Brown, said: "European markets are still above equilibrium levels and we have still not seen the full extent of the correction we expect."

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Prime minister Sergei Kiriyenko: turbulence will test his mettle Picture: Reuters

Russia triples interest rates to 150% as rouble stumbles

By Chrystia Freeland in Moscow

The Russian central bank tripled interest rates to 150 per cent yesterday in a last-ditch effort to defend the rouble and restore stability to the financial system.

President Boris Yeltsin has summoned his most important economic advisers to an emergency meeting in the Kremlin today to fight off one of the worst crises Russia's nascent market economy has endured.

The rate rise came in response to turmoil on Russian markets, where share prices fell by more than 10 per cent in the course of the day and yields on treasury bills soared above 80 per cent.

The rouble, rocked by fears of devaluation, edged below the central bank's daily target corridor, but strengthened after the interest rate rise. Shares have fallen 40 per cent since the start of the month and have lost more than half their value since the beginning of the year.

Russian officials, in negotiations with the International Monetary Fund, have raised the possibility of a special fund to defend the rouble. The Kremlin is also hoping the IMF will decide by the end of this week to release a $670m tranche of Russia's three-year $9.2bn loan. A senior IMF official is expected to arrive in Moscow for talks today.

Michel Camdessus, the IMF managing director, sought yesterday to calm Russia's troubled markets. "Contrary to what markets and commentators are imagining, this is not a crisis," he said.

Sergei Dubinin, the central bank chairman, said the rate rise was an effort to defend ordinary Russians and to fight off "speculators" who hoped to profit from fears of a devaluation. The rise would be a "cold shower" for the overheated market.

The turbulence will test the mettle of Sergei Kiriyenko, Russia's new prime minister, whose team has already suffered one setback this week when it failed on Tuesday to find a buyer for Rosneft, the largest Russian oil company still to be privatised. That may have helped trigger yesterday's turmoil by depriving the treasury of the $2.1bn it had expected to make from the sale.

The frantic selling followed weeks of steady deterioration of the Russian financial system. Last week Russian equities shed more than 11 per cent in a day, prompting the central bank to raise interest rates from 30 to 50 per cent.

Investor concern has focused on Russia's public finances, particularly its inability to boost tax collection. After gradually improving in the first quarter of the year, tax revenues fell last month and are expected to be poor this month as well. Russia's woes have been heightened by falling international prices for oil, a major export earner.

"The central bank had one single purpose – to give a strong signal to the markets that they will not be dissuaded from defending the rouble, even at the cost of horrific interest rates," said Martin Diggle at Moscow brokerage Brunswick Warburg.

Editorial Comment, Page 13

WORLD NEWS

Tens of thousands of Korean workers join general strike against job losses

Tens of thousands of South Korean workers yesterday launched a two-day general strike against unemployment as the government, struggling with the worst recession in two decades, warned union leaders the action was illegal. Page 14

EU near deal on company law
European Union states are close to a deal on a company statute aimed at allowing multinationals to operate more efficiently across the EU. Page 3

Serbs halt student protest
Serbian police prevented more than 1,000 students from marching through Belgrade in protest at a new law that imposes direct government control over their university. Page 2

India backs disarmament
Indian Prime Minister Atal Behari Vajpayee told parliament Delhi would pursue global nuclear disarmament in international forums and refrain from exporting nuclear technology. Page 4

Beef exports to go ahead
The European Commission decided Northern Ireland can start exporting beef from next Monday, for the first time for more than two years. Page 9

France fears World Cup terror
France said it had "real and troubling" evidence of militant Islamic threats to next month's World Cup soccer championships.

Iran-Saudi accord signed
Iran and Saudi Arabia signed an agreement to co-operate in a broad range of fields ranging from business and investment to culture and sports. Page 8

Danish PM calls for Yes vote
Danish Prime Minister Poul Nyrup Rasmussen appealed for a Yes vote in today's close-fought referendum to endorse closer European integration. Page 3

US 'wants France back in Nato'
A senior US senator said Washington will work hard to have France return to being a full member of Nato despite French efforts to "irritate" the US. Page 6

Minister survives calls to quit
Angela Merkel, the German environment minister at the centre of a row over contaminated nuclear waste transports, survived a call from the Greens for her resignation. Page 2

Georgian government blamed
Demonstrators in Tbilisi blamed the government for allowing 30,000 Georgians to be driven from the buffer zone with rebel Abkhazia. Page 3

Concern over UK inflation
A Bank of England official said UK inflation will continue to rise unless wages and consumption are kept under control. Page 9

Greenpeace seeks pipeline ban
Greenpeace is seeking a court injunction to halt construction of a gas pipeline it says threatens Argentina's dwindling jaguar population. Page 7

Taxi protest foiled
A federal judge stopped a plan by New York City taxi drivers to drive slowly through the city in protest at proposed new rules of conduct. Page 6

Some colour pictures were unable to run in this edition because of transmission problems to print sites.

BUSINESS NEWS

Daimler investors welcome Chrysler merger as chairman rules out job cuts

Daimler-Benz shareholders welcomed the merger with Chrysler as chairman Jürgen Schrempp promised there would be no job cuts and vowed to protect the Mercedes-Benz brand. Also, German unions agreed that US car workers would be represented on the supervisory board of the new Daimler-Chrysler group. Page 15

British Airways reported annual pre-tax profits down 9.4 per cent to £580m ($945m) due to the strong pound and a strike by cabin crew, but lower fuel prices and cost-cutting helped hold the decline to less than expected. **Page 15; Comment, Page 20**

Switzerland's federal government approved draft legislation to sever the Swiss franc's link to gold, setting the stage for a referendum and constitutional amendment that would allow the Swiss National Bank to sell half its reserves, about 1,300 tonnes. **Page 2**

CSN, Brazil's biggest steel group, and Thyssen Krupp Stahl of Germany, the world's number three, will invest $250m in a joint venture to make galvanised products for the motor industry in Brazil and other regional countries. **Page 17**

Nissan, Japan's second-largest carmaker, unveiled its fourth loss in five years because of sluggish sales. The results contrasted sharply with record profits by Toyota and Honda, which enjoyed buoyant demand overseas. **Page 15; Gearing up for European integration, Page 19**

Kone of Finland, one of the world's largest elevator and escalator manufacturers, is forging a global alliance with Toshiba of Japan to exploit rising demand for lifts and moving walkways. **Page 18**

Alpha Credit, Greece's biggest private bank, came to the rescue of the Socialist government with an offer to buy the struggling state-run Ionian Bank which is at the centre of violent labour protests over privatisation policy. **Page 3**

Hutomo "Tommy" Mandala Putra, youngest son of Indonesia's former president Suharto, dismissed reports he may sell his 60 per cent stake in Lamborghini, the Italian sports car maker, to Volkswagen of Germany. **Page 19**

Air France, the French national carrier, reported its first full-year net profit for several years but chairman Jean-Cyril Spinetta said its partial privatisation would be put off until after summer. **Page 18**

UK pension funds made an average return of 11 per cent in the first quarter, the highest for more than five years, compared with a loss of just over 1 per cent in the last quarter of 1997, but WM, the performance measurement company, warned that returns were running below 2 per cent in this quarter. **Page 9**

PolyGram, Europe's largest music group, is to launch two experimental promotions next month in which it will sell selected albums at the same wholesale price throughout Europe. **Page 8**

WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	8,857.11	(-106.62)
NASDAQ Composite	1,753.53	(-24.56)
Europe and Far East		
CAC40	4,017.37	(-98.51)
DAX	5,490.64	(-153.65)
FTSE 100	5,870.2	(-100.5)
Nikkei	15,664.29	(-220.53)
US LUNCHTIME RATES		
Federal Funds	5.56%	
3-mth Treas Bills: Yld	5.093%	
Long Bond	104⅞	
Yield	5.821%	
OTHER RATES		
UK: 3-mo Interbank	7¾%	(same)
UK: 10 yr Gilt	110.7422	(110.75)
France: 10 yr OAT	104.39	(104.36)
Germany: 10 yr Bund	107.96	(107.91)
Japan: 10 yr JGB	111.78	(111.91)
NORTH SEA OIL (Argus)		
Brent Dated	$14.765	(14.345)

GOLD		
New York Comex		
May	$293.7	(295.4)
London		
	$293.95	(295.85)
EXCHANGE RATES		
Dollar		
New York: lunchtime		
£	1.6301	
DM	1.78375	
FFr	5.981	
SFr	1.4723	
Y	137.575	
London		
£	1.6311	(1.6385)
DM	1.7816	(1.7721)
FFr	5.973	(5.943)
SFr	1.4718	(1.4734)
Y	137.605	(137.295)
Tokyo Close		Y 137.6
Sterling		
DM	2.9059	(2.9)

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Bahrain	[illegible]	Belgium	[illegible]	Cyprus	[illegible]
Denmark	[illegible]	Estonia	[illegible]	Finland	[illegible]
France	FFr12.50	[illegible]	[illegible]	Greece	[illegible]
Hungary	[illegible]	[illegible]	[illegible]	Italy	[illegible]
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Spain	[illegible]	Sweden	[illegible]	Spain	[illegible]
Switzerland	[illegible]	Tunisia	[illegible]	UAE	[illegible]

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Brussels blocks Bertelsmann-Kirch digital pay TV deal

By Samer Iskandar in Brussels

The European Commission yesterday blocked a planned German digital pay TV venture, after Bertelsmann, one of the partners, refused to back a last-minute compromise which would have saved the deal.

The proposed deal involved merging DF-1, a loss-making digital TV service run by Kirch, the German media group, with Premiere, an analogue TV service controlled jointly by Kirch and CLT-Ufa, the Luxembourg media company part-owned by Bertelsmann of Germany.

The decision to outlaw the deal threatens to delay by several years the introduction of digital TV in Germany and will increase speculation about the financial position of Kirch, which has accumulated substantial debt to buy rights to popular Hollywood films. Kirch said the Commission decision would not affect its ability to do business.

Brussels has only blocked eight deals since it was given wide-ranging powers to vet large mergers in 1990. Karel Van Miert, EU competition commissioner, said of yesterday's decision: "The European Commission has just decided unanimously to prohibit the joint venture."

Bertelsmann's refusal to agree a compromise meant that the Commission did not have to vote on the joint venture, avoiding the possibility of divisions between commissioners being made public. Other commissioners had urged Mr Van Miert to take into account the industrial and cultural importance of the deal.

Mr Van Miert said an acceptable solution had been within reach of the companies and the Commission. Negotiations had continued until Tuesday and Mr Van Miert had taken the "unusual" step of suggesting a last-minute compromise.

"I made a verbal proposal, which was accepted by Kirch but turned down by Bertelsmann," he said. "Bertelsmann [later] confirmed in writing that it did not want to move at all."

The companies had already made several sacrifices in an attempt to obtain Commission clearance.

Mr Van Miert said the Commission and companies should try in future to avoid last-minute negotiations. "A month before deadline [for concluding merger investigations], the Commission should make a decision, to let the parties know that they cannot drag their feet," he said. "We must have time to consult other parties involved ... Footdragging can sometimes go too far."

How Van Miert held the line, Page 2

CONTENTS

IOSCO deal to reduce securities risks

By Andrew Jack in Paris and Jim Kelly in London

International securities regulators in Paris yesterday agreed draft plans designed to reduce systemic risks in national stock exchanges.

IOSCO, the International Organisation of Securities Commissions, described as "ground-breaking" the introduction of this explicit objective into their framework document. It would come alongside the more conventional objectives, already enshrined in law in the US and other countries, of protecting investors and ensuring the fair and efficient operation of markets.

The IOSCO meeting also approved two technical statements which lay out new recommendations on the identification, monitoring and management of risks, and on methodologies to determine the minimum capital standards required by securities firms.

The draft documents on risk, which have already been widely circulated and approved by securities regulators including the US Securities and Exchange Commission, are likely to be formally ratified at IOSCO's next annual meeting in Nairobi.

The document on capital standards brings IOSCO closer to the methodologies favoured by the Basle Committee on Banking Supervision based on complex "value at risk" models. As a result IOSCO expects to reduce market distortions.

Tony Neoh, head of the Hong Kong Securities and Futures Commission, who helped co-ordinate the guidelines, said they would prove useful to the International Monetary Fund, the Bank for International Settlements and other organisations involved in supervising new regulatory structures.

He argued that efforts to control risk in the financial markets were especially important now that the total funds they contained – more than $20,000bn – exceeded the money available in the worldwide banking system.

Concern about risks to the financial sector has risen since the Barings crisis, the problems in Asia and political pressure from the G7 leading industrial countries.

The regulators also approved a document on recommended international non-financial statement disclosure standards for cross-border offerings and initial listings by foreign issuers.

It recommends within prospectuses widespread disclosure on topics including boardroom practices, directors' compensation and stock options, business trends and the ways in which capital raised will be used.

Later this year IOSCO will consider for endorsement a package of accounting standards developed by the International Accounting Standards Committee (IASC). These are also designed to facilitate cross-border listings. The SEC has indicated that endorsement is not a foregone conclusion.

EU COMPETITION POLICY BRUSSELS BLOCKS GERMAN PAY-TV DEAL

How Van Miert held the line against lobbies

By Samer Iskander in Brussels and Frederick Stüdemann in London

The European Commission's decision to block the German digital pay-TV project proposed by the media groups Kirch and Bertelsmann appears to be a big scalp for the trust-busters of Brussels.

Despite considerable lobbying from the companies and German politicians, the Commission and its champion of fair competition, Karel Van Miert, stood their ground.

The result is that viewers in Europe's biggest media market must now wait even longer for the promised wonders of the multi-channel, inter-active world of digital pay-TV. But it is also a severe financial setback for Kirch, and many egos will doubtless be bruised.

Deutsche Telekom, the partly privatised telecoms company, was also to have been involved in developing the technology needed for the broadcasting and reception of digital programming and the distribution of the product on its cable network.

Yesterday's decision appears to mark a significant stage in the debate about forging a suitable regulatory policy for "new media" industries, such as digital pay-TV, where for some time the need for basic guidelines has been recognised.

In fact, the decision was not so clear-cut. It was only Bertelsmann's refusal to make more concessions which allowed Mr Van Miert to claim that the subsequent decision by the Commission to block the deal was unanimous.

At least eight commissioners, including two each from Germany, France and Spain, disputed Mr Van Miert's argument that, by controlling the bulk of programmes, the technology needed to watch them and distribution, the proposed deal would create a dominant market position.

However, some of his critics in the Commission were persuaded by the companies' arguments that the high cost and risk of establishing digital pay-TV in Germany merited a more lenient regulatory stance.

Another factor, common to the "cultural" industries as a whole, was the national and linguistic sensitivities involved in television.

But with Bertelsmann's withdrawal, no vote was needed. Both sides had moved closer to an agreement in recent weeks ahead of a scheduled final decision on June 3, and Bertelsmann's decision to pull out at the last stage reveals significant differences between the two companies, which have often been unwilling partners.

While Kirch was prepared to make more concessions, Bertelsmann said any more revisions would have made the deal economically unviable.

The final stumbling block was the demand from the Commission that independent cable operators should be allowed to market their own pay-per-view packages either alongside or including those offered by Premiere.

This followed earlier concessions by the companies to bring third parties into the circle of shareholders of Beta Research, the technology and distribution company, and to make 25 per cent of the films to which Kirch holds the pay-tv rights available to other broadcasters.

Yesterday both companies said they would seek to reach a new solution and that the conversion of Premiere to digital technology would go ahead.

Prague launches bank sell-off

By Robert Anderson in Prague

The caretaker Czech cabinet yesterday agreed to advertise the sale of one of the country's biggest banks but to leave the disposal of the other two state-owned banks to the new government formed after the general election next month.

An advertisement for the sale of more than 51 per cent of the state's 66 per cent stake in Ceskoslovenska Obchodni Banka (CSOB), the old foreign trade bank, will be placed in the next two weeks. The government will identify the single bidders which qualify and will leave the choice of the winner to the new administration.

The cabinet hopes that the new government will place advertisements by the end of July for Komercni Banka, the country's biggest bank, and Ceska Sporitelna, the main retail bank. A single buyer or a consortium will be able to bid for more than 34 per cent of the state's stakes of just under 50 per cent.

The sales are likely to be of particular interest to west European banks, which are keen to expand their operations in the region. The European Bank for Reconstruction and Development has also signalled that it is prepared to come in alongside a strategic investor, and in the case of CSOB it has discussed buying the Slovak government's 24 per cent stake.

However, the early advertisement of CSOB will be controversial because the Social Democrats – who lead in opinion polls and backed the government in a vote of confidence in January – have demanded that the caretaker cabinet does not bind the hands of its successor.

Slovak airwaves out of bounds to poll campaign debate

Meciar has raised the stakes in his feud with non-state media, writes **Robert Anderson**

The Slovak government has raised the stakes in its feud with the non-state media by passing a law that will curtail political coverage by private broadcasters before the general election in September.

An amendment to the election law will limit political coverage to party broadcasts on the state-run television and radio stations and appears to restrict non-state broadcasters to reporting election events in news bulletins or face fines of Sk5m ($147,000).

"We still don't know the exact conditions of the law," says Andrej Hryc, director of Radio Twist. "We think it will be absolutely impossible to have round-table discussions about politics 30 days before the elections. But in our news programmes we will be telling people what is happening and we expect attacks on us for this."

Critics of the law fear that its ban on "election campaigning" will encompass any reporting or discussion of election matters outside news bulletins by Radio Twist and Markiza Television, which the government of Vladimir Meciar, the prime minister, regards as mouthpieces for the opposition.

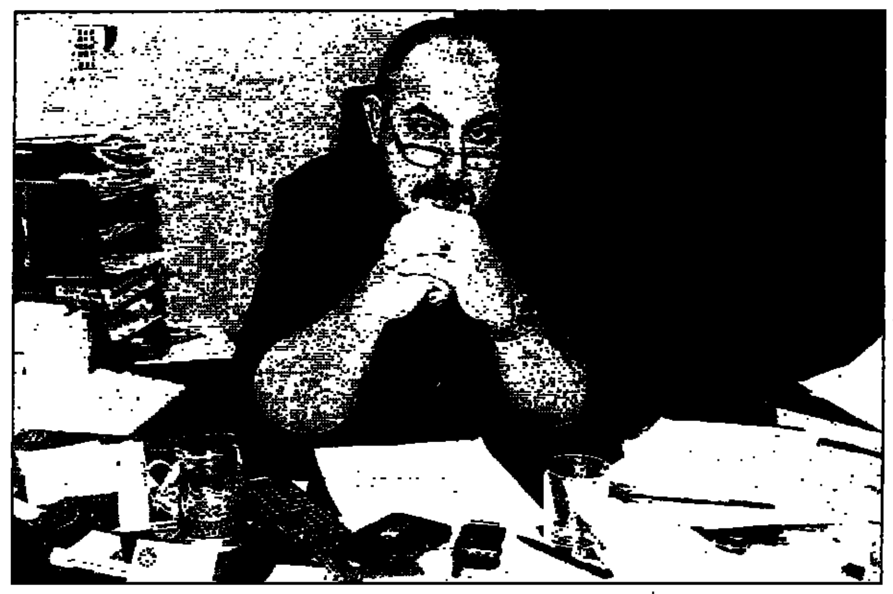
The measure is another example of what is viewed as the intolerance of political opposition that led the European Union last year to leave Slovakia out of its first wave of potential new members.

In its opinion given last summer the EU's executive highlighted media freedom, commenting: "The government has exercised considerable influence on the public radio and TV networks, marked in particular by a very substantial imbalance in the amount of access granted to the government and the opposition."

The opposition fears that the state-run television and radio will follow a brief to help put Mr Meciar back in contention for his fourth term in office. Western diplomats are also concerned. One ambassador says: "Elections will be the acid test. Access to the electronic media is vital."

The move against the electronic media follows the failure to tame the print media last year. The government planned to raise consumption tax from 6 per cent to 23 per cent for newspapers which have advertisements covering more than 10 per cent of their space.

After a concerted campaign of opposition from newspapers and rumblings of dissent from the two smaller parties in the ruling coalition, the government backed down and agreed that the rise would only apply to periodicals with more than 50 per cent advertising.



Andrej Hryc: 'Round-table discussions about politics will be impossible'

Instead the government appears to be building up a network of friendly newspapers to balance what is a largely hostile print media. The ruling Movement for a Democratic Slovakia already has its own party newspaper, Slovenska Republika, which is favoured with state support. Now Danubiaprint, a printing and publishing company controlled by government supporters, is setting up a group of regional newspapers ahead of the elections.

Earlier this year Danubiaprint privatised Prva Novinova Sluzba, the largest print media distributor, giving it control over more than half the country's periodical print facilities and raising fears among independent newspapers that this could be used as a threat in the election run-up.

International media organisations have already criticised several incidents of media harassment. Karol Jezik, editor of Sme, an influential opposition daily, says his paper has been regularly sued and had its printing contract cancelled after government pressure. Most seriously, last year his chief investigative reporter had his car fire-bombed.

Mr Hryc complains that Radio Twist was shut down for 24 hours last year for a delay in paying a small telecoms bill when state radio owed the state telecoms company far more. Radio Twist has also had its transmitters vandalised and is regularly fined for minor licence infringements.

Markiza, the racy leading television station 49 per cent controlled by the US-owned Central European Media Enterprises, has not come under the same kind of pressure but it has only recently become closely identified with an opposition party.

Pavol Rusko, general director and co-owner, insists his station is independent though it is widely credited with creating the bandwagon behind the new Party of Civic Understanding lead by Rudolf Schuster, the mayor of Kosice. "The current politicians do not have any credibility," he says. "I only want to help this process in which new people enter politics."

The Slovak media reflect the state of the country's politics rather than hold a mirror up to it. Slovak politics is a winner-takes-all game in which a frustrated opposition plays parliamentary games and mounts public demonstrations to make itself heard. In the same way, the polarised debate in the media has become increasingly degraded, with opposition newspapers subjecting Mr Meciar to a barrage of personal abuse.

Serbian police block university protest

By Guy Dinmore in Belgrade

Serbian police yesterday prevented more than 1,000 students from marching through Belgrade in protest at a new law that imposes direct government control over their university, the latest move by President Slobodan Milosevic to consolidate his power.

The mood was more good-humoured than on Tuesday, when uniformed and plain-clothes police attacked student demonstrators outside the Serbian parliament and injured about 20.

The ruling coalition of Mr Milosevic's Socialists and the ultra-nationalist Radicals passed a law on Tuesday night that allows the government to appoint directly the rector, deans and management board of Belgrade University.

"This law is expected to change a sick state that exists in some universities," Ratko Markovic, deputy prime minister, told parliament.

Serbian students launched a winter of political unrest in Serbia in late 1996 after Mr Milosevic refused to recognise opposition victories in nationwide local elections. The inventive enthusiasm of the students galvanised people across the country, forcing Mr Milosevic to cave in after three months of street protests.

Diplomats see the law as part of a wider strategy by Mr Milosevic, the federal Yugoslav president, to regain the control for his former communist party over key institutions. Last week Mr Milosevic orchestrated the dismissal of the federal prime minister, Radoje Kontic, whose loyalty had wavered.

This month the federal government denied frequencies to local independent radio and television stations that have irritated the authorities by rebroadcasting news bulletins of Belgrade's B-92 radio station. B-92 itself was given a frequency but at an exorbitant fee that it cannot afford and says it will not pay.

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France to sell shares in Aerospatiale

By David Owen in Paris

The French government has given clearance for the capital of Aerospatiale, the state-owned aerospace group, to be opened to outside investors, in a fresh boost for the prospects of consolidation in the European defence industry.

The office of Lionel Jospin, prime minister, said in a statement the government had given Yves Michot, the Aerospatiale chairman, a mandate to "rapidly conclude essential strategic agreements" in the combat aircraft, tactical missile and space rocket sectors.

To facilitate such partnerships and the development of future industrial programmes, the government had asked Mr Michot to submit proposals "insofar as is necessary" for opening the company's capital and proceeding to a flotation.

The statement marks an important step, since it may help to assuage the concerns of British Aerospace and Daimler-Benz Aerospace (Dasa) of Germany about accepting the French state as a long-term shareholder in Airbus Industrie. The aircraft consortium is to be turned into a limited company next year.

Aerospatiale, BAe and Dasa are the leading shareholders in Airbus, which at present makes no profits or losses in its own right.

Airbus's transformation into a single company is seen as a key stage in a wide-ranging restructuring of Europe's aerospace and defence industries aimed at creating entities capable of competing effectively with the leading US defence groups. BAe and Dasa have put the French government under pressure to privatise Aerospatiale.

Yesterday's statement also reiterated that Mr Michot should encourage Airbus's transformation into an integrated company in line with the agreed calendar, while respecting French interests and keeping watch over the development of Aerospatiale's activities.

Officials indicated the move was designed to give Mr Michot as much freedom as possible in negotiating alliances with other aerospace companies and to show confidence in the newly reorganised Aerospatiale management team.

The announcement was made less than two weeks after Paris moved to strengthen its hand in negotiations on the future structure of the European defence industry by transferring to Aerospatiale its 46 per cent stake in Dassault Aviation, the military and executive aircraft specialist.

The timing of any eventual Aerospatiale flotation and the proportion of capital it is likely to involve are uncertain.

NEWS DIGEST

BULLION SALES ON WAY

Swiss government set to sever franc link with gold

The Swiss federal government approved draft legislation yesterday which severs the Swiss franc's link to gold, thus paving the way for the Swiss National Bank to sell about 1,300 tonnes of gold, or half of its reserves.

The plan to revalue and gradually sell gold reserves requires parliamentary approval and amendment of the Swiss constitution. It must be endorsed by Swiss voters in a referendum. A finance ministry spokesman said the referendum would probably take place next year.

According to the plan, made public after a Swiss cabinet meeting in Bern, the National Bank could revalue its 2,590 tonnes of gold reserves to about 60 per cent of the current market price.

The SNB's gold reserves are currently valued at a fixed price, spelled out by the Swiss constitution, of 4,595 Swiss francs per kilo. That is only roughly one-third of the current market price.

Switzerland is the last major country in the world to officially link its currency to gold. **Reuters, Bern**

NUCLEAR WASTE ROW

Merkel wins Kohl's backing

Angela Merkel, the German environment minister at the centre of a row over contaminated nuclear waste transports, yesterday easily survived a call from the environmentalist Green party for her resignation.

In a noisy emergency debate that followed the discovery of excessive radiation on the outside of special "castor" containers used to ship used fuel elements from nuclear power stations, Helmut Kohl, the chancellor, gave Mrs Merkel his full backing.

He told the Bundestag, the lower house of parliament, that Mrs Merkel was an "excellent" minister doing "a fantastic job".

All three parties in Mr Kohl's centre-right coalition voted against the Greens' demands that Mrs Merkel should resign. Although critical of the minister, the main opposition Social Democratic party abstained.

Mrs Merkel has proved a robust and determined defender of the government's nuclear policy since the row blew up last week.

She said yesterday the use of nuclear energy could be defended, but accused the industry of triggering a loss of confidence by keeping the contaminated waste shipments secret for many years. **Peter Norman, Bonn**

ICELANDIC LOCAL ELECTIONS

Defeat for Independence party

Iceland's Independence party, the dominant group in the two-party coalition government, was yesterday said to have suffered the largest defeat in its history after failing to retake control of Reykjavik in local elections.

The party, which has controlled the capital for most of the past 70 years, saw an alliance of leftwing parties win a second term in power in Reykjavik after elections at the weekend.

"This is the biggest defeat for the Independence party and the most important victory for the left in Icelandic history," said Svanur Kristjansson, professor of political science at the University of Iceland.

The Independence party, led by David Oddsson, prime minister, polled 45.24 per cent of the vote in Reykjavik, against 53.6 per cent for the four-party leftwing alliance.

Discontent at the ruling coalition, comprising the Independence and Progressive parties, has been fuelled recently by allegations of corruption and incompetence in the banking sector. **Tim Burt, Stockholm**

SLOVAKIAN POWER PLANT

PM rejects plea for delay

Slovakia yesterday rejected the latest plea by the Austrian government to delay starting its controversial Mochovce nuclear power plant, which Austrian experts say may not be safe.

Vladimir Meciar, Slovakia's prime minister, has agreed to a continuation of expert talks, but only under the auspices of the International Atomic Energy Agency.

An IAEA spokesman said the agency had no serious worries about the safety standards of Mochovce, a Soviet-style power plant that was started under communism and is now being completed with the help of western technology.

The plant's operator, Slovenske Elektrarne, plans to activate the nuclear fuel rods by the end of May and to have the first reactor operating on a trial basis in July.

But Wolfgang Kromp, the head of an Austrian-led team of experts which inspected the plant earlier this month, warned of the potential for "the biggest accident imaginable" if the nuclear fuel rods are activated before improvements are undertaken. **Eric Frey, Vienna**

RPR INVESTIGATION

Chirac denies 'crisis' tactics

President Jacques Chirac's office yesterday denied a newspaper report that it had formed a "crisis unit" to cope with the growing judicial investigations surrounding the RPR, the centre-right party founded by Mr Chirac.

Le Monde said that Mr Chirac's secretary-general, his legal adviser and the former head of the private office of Alain Juppé, the former RPR prime minister, had held meetings to consider how to counter-attack in the event that a magistrate questioned Mr Juppé.

Mr Juppé denounced the report as an attempt to place pressure on the legal investigations into the financing of the RPR. Media reports last week alleged the Paris city hall had paid for 300 RPR activists at a time when Mr Chirac was mayor and Mr Juppé his deputy for financial affairs. **Andrew Jack, Paris**

WORLD CUP

Strike may disrupt air travel

The threat of disruption to air travel in France during the World Cup football tournament which begins next month appeared to be growing yesterday after Air France pilots gave formal notice of a two-week strike to start on June 1.

The move, by the SNPL, the main pilots' union, is in protest at proposals by the company to cut its annual salary bill by FFr500m ($84m). Pilots have been offered shares in the group in exchange for agreeing to such measures.

The SNPL said yesterday that if nothing changed before Sunday night, it was certain there would be a strike from Monday. But it described the timing of the World Cup as a "pollution of the situation" and said it did not intend to take the tournament hostage.

Air France, for its part, pledged to guarantee the transport of teams due to take part in the tournament, which kicks off on June 10. **David Owen, Paris**

Air France privatisation to be delayed, Page 18

GREEK STRIKES PRIVATISATION PROTESTS GROW

Rescue offer for bank

By Kerin Hope in Athens

Greek strikers march in central Athens yesterday in protest at privatisation plans Reuters

Alpha Credit, Greece's biggest private bank, came to the Socialist government's rescue yesterday by saying it would offer to buy Ionian Bank, a struggling state bank at the centre of violent labour protests over privatisation policy.

Yannis Costopoulos, Alpha Credit's chairman, said in an interview with the FT that the bank would seek shareholders' approval next month for a Dr80bn-Dr90bn ($265m-$300m) capital increase to bid for a 51 per cent stake in Ionian, which is to be offered for sale through the Athens stock exchange.

"We intend to make a firm offer. We would pay quite a big premium on the bank's book value in order to demonstrate our confidence in the capabilities of Ionian's workforce," Mr Costopoulos said.

The government is under pressure from Brussels to speed up privatisation of state-controlled banks and public utilities, to ensure that Greece can meet a January 1 2001 deadline for joining the European monetary union.

But the scheme to sell Ionian rather than merge it with its cash-strapped parent group, Commercial Bank, has triggered repeated strikes by bank staff, supported by transport and utility workers.

Riot police yesterday used tear gas to disperse demonstrators who tried to enter the parliament building during a one-day strike called by the General Confederation of Labour. The bank union, OTOE, announced more strikes next month.

But the rolling strikes staged by state-controlled banks for the past two weeks have attracted comparatively little support. Alpha Credit's union boycotted the walkouts and participation by workers at state banks has averaged less than 40 per cent, analysts said.

The government has pledged that all 4,200 jobs at Ionian would be guaranteed for three years after the sale.

Mr Costopoulos said Ionian would not be merged with Alpha Credit "because of the problems that would arise with trying to bring two separate pension funds in line". He said most of Ionian's 160 branches would be kept open to strengthen Alpha Credit's network.

With assets of $11bn and a capital base of $1bn after next month's increase, Alpha Credit is Greece's only European-sized private bank. Analysts said it would be likely to offer about Dr150bn for 51 per cent of Ionian, which has a book value of Dr90bn.

MPs accuse Shevardnadze

By Selina Williams in Tbilisi and Laura Silber in New York

Leaders of Georgia's parliamentary factions met yesterday to discuss President Eduard Shevardnadze's decision not to send government troops to support partisan fighters in Georgia's rebel province of Abkhazia.

Earlier in the morning, a group of demonstrators gathered outside parliament and blamed the government for the "ethnic cleansing" of some 30,000 Georgians from the buffer zone separating Georgian-controlled territory from Abkhazia.

"The result of Shevardnadze's decision has been a radicalisation of opposition forces," said Georgy Khutsishvili from the Institute of Conflict and Negotiations in Tbilisi. "This could destabilise the situation in Georgia and make it much harder to find a solution to the conflict."

Fighting broke out between Abkhaz separatists and Georgian partisans a week ago in Gali, Abkhazia's southern region. The fighting quickly intensified, but calmed yesterday after a agreement took effect.

But a large influx of ethnic Georgian refugees into the neighbouring town of Zugdidi in western Georgia has stretched local resources. There are fears that the refugees' discontent could be used by external forces to foment further problems in the former Soviet republic.

In New York, Kofi Annan, UN Secretary General, has recommended the despatch of a 294-strong force to protect a 90-member unarmed team of UN observers, who are risking landmines, kidnappings and banditry and have been confined to their barracks. The force may be withdrawn in July unless the security situation improves markedly.

The president, who escaped an assassination attempt in February, said then that "reactionary" forces in Russia planned the attack to prevent Georgia winning the contract for a pipeline to carry crude oil from Central Asia to international markets. The proposed route through Georgia would pass less than 100km from Abkhazia, but the alternative Russian route would pass through Chechnya and other republics in the northern Caucasus.

Support treaty, says Danish PM

By Hilary Barnes in Copenhagen

Poul Nyrup Rasmussen, Denmark's prime minister, has appealed for a Yes vote in the referendum today on the European Union's Amsterdam treaty on closer integration, in a sign that the government is not taking the result for granted.

A poll published in a Copenhagen newspaper yesterday showed 45 per cent in favour to 35 per cent against, with 20 per cent undecided.

"I would be surprised, but not very surprised, if there was a No majority tomorrow," a European diplomat said.

The treaty prepares the way for former eastern bloc countries to join the European Union. The vote today will be Denmark's fourth on an EU issue in 12 years.

Mr Nyrup Rasmussen made the appeal to voters during a national televised debate late on Tuesday. Looking anything but confident of victory, he warned: "If there is a No, Denmark will be isolated and will lose influence." Marianne Jelved, minister for the economy, said: "Denmark will become a blank space on the map if there is a No."

Both sides have placed adverts in women's magazines in an attempt to win over female voters, who seem more sceptical about the treaty than men. Women voters oppose the treaty – by as much as 60 per cent against 40 per cent in favour – according to some polls.

But the financial markets seem to expect a Yes majority. The krone has strengthened slightly against the German mark over the past few days. The yield on long-term government bonds has fallen, and the yield gap to German bonds has narrowed slightly.

Meanwhile, police are taking extensive precautions in case there is a repetition of the riots which broke out in Copenhagen's inner suburb of Noerrebro after the 1993 vote to ratify the EU's Maastricht treaty.

Deal close on company statute to cut red tape

New law could bring the single market a step closer, reports **Michael Smith**

Few laws have been longer in the making. But after 28 years of wrangling, European Union nations are tantalisingly close to a deal on a European company statute aimed at allowing multinationals to operate more efficiently across the EU.

The UK and Germany are moving towards resolving differences over worker representation which have long held up the deal.

While other countries have problems with the proposed agreement, there are hopes these too can be overcome, and that the broad principles covering the statute can be agreed at a meeting of social affairs ministers in Luxembourg next week.

The UK is keen for a deal as a trophy for its six-month EU presidency. It would help Tony Blair's government in its claims that it is batting for business. British Petroleum and British Aerospace are among companies which have been urging the UK to broker an agreement.

The statute's supporters say its adoption would bring the single market a step closer. Business would be better able to respond to pressures for economic globalisation, particularly in competing with US groups which benefit from a more integrated legal structure.

A business which adopted the statute would become a Societas Europaea (SE). Multinational companies say this would reduce the need for businesses to set up a complex network of subsidiaries governed by different national laws. Requirements for head office functions, separate boards of directors and annual meetings in each country would be reduced.

European Commission officials say mergers between companies of different countries would be easier to implement. "The statute would allow corporations to live under one set of company law rules," says Sue Binns, company law director at the Commission. "It would not solve all the problems of operating in more than one country, but it would be an immense simplification."

Not everyone is enthusiastic, however. Alec Burnside, a Brussels partner with law firm Linklaters & Paines, argues the statute would provide for little more than re-branding of national companies. "The European halo for companies adopting the SE may be valuable," he says. "But claims that it will simplify corporate affairs across Europe are wishful thinking."

The statute, he says, is limited because a series of issues including directors' liability, insolvency and tax are referred to the national law of the country where the SE is registered. It will create a complex interaction between European and national law.

Multinationals have long argued that differences between tax regimes complicate business and add to costs, and are disappointed that the SE will do little to tackle the problems.

But governments long ago rejected the idea that as part of the statute they would allow companies to pay tax in one country, leaving national authorities to sort out their share. However, some EU officials believe tax reform will rise on the political agenda once SEs are in operation.

The immediate task, however, is resolution of issues connected with worker representation. European countries have widely differing approaches, with Germany at one extreme enshrining in law a system with worker representatives on supervisory boards and the UK, at the other extreme, with a more constrained role for employees.

The proposed deal provides for the worker representation model to be adopted in mergers between companies with opposing systems, although this would be overturned if two thirds of workers voted against participation. The British government argues this is justified since no company will be forced to become an SE.

Supporters say business would be better able to respond to pressures for economic globalisation

Dirk Hudig, secretary general of Unice, the European employers' federation, is supportive of the broad principles of the statute. But he says a system that allows one-third of employees to decide is unacceptable. "It doesn't make sense for the minority to be able to impose their wishes on the majority," he says.

And while the UK has compromised, France, Italy and Spain have yet to be convinced. France's opposition is supported by unions in a country where management and employee roles are traditionally kept separate.

The UK is working on plans to appease the potential opponents on worker representation and to resolve other issues, including whether companies operating in one country only can convert into SEs.

EU officials believe a deal is closer than at any time in the last 28 years, and achievable. They also agree that rejection of the UK's proposals next Thursday would end chances of agreement for years, forcing companies to pursue other methods for simplifying pan-European operations.

OIL PRIVATISATION PREMIER SAYS GOVERNMENT WILL GO ON WITH PROJECTED SALE OF PART OF ITS STAKE IN TWO COMPANIES

Kazakhstan affirms oil sell-off plans

By Charles Clover, Robert Corzine and Carlotta Gall in Astana, Kazakhstan

Kazakhstan's prime minister, long thought to be the main obstacle to privatisation of the country's strategic oil industry, said yesterday he was in favour of oil privatisation "if done correctly". He also affirmed the government would proceed with plans to sell part of its share in two oil companies, probably later this year.

Nurlan Balgimbayev said in an interview with the Financial Times: "You can write that Balgimbayev is against incorrectly done privatisations but in favour of correctly done privatisations."

While serving as oil minister before being appointed prime minister last month, Mr Balgimbayev earned a fearsome reputation in the government for battling against the privatisation of oil assets such as the Shymkent refinery and the Kumkol oil field, both sold in 1996. In February he used his first press conference since becoming prime minister to declare a halt to further privatisation of the oil industry, which has attracted the interest of a broad range of foreign companies. Since then his remarks have been interpreted as meaning only a halt to further oil exploration concessions.

But many local oil industry experts have continued to think that Mr Balgimbayev is behind the delays in plans to sell remaining shares in two large oil companies, Mangistaumunaigas and Aktiubemunaigas, on the Kazakh stock exchange. They would be the showpieces of the country's so-called "blue chip" programme, in which government stakes in five leading companies would be sold in order to jump-start the local share market.

But Mr Balgimbayev said the government would continue with plans to sell the two companies, this year if possible. He said the size of the government stakes to be sold would depend on the revenue requirements of the government.

Last year, it sold 60 per cent of Mangistaumunaigas to Indonesia-based Central Asia Petroleum, and 60 per cent of Aktiubemunaigas to the Chinese National Petroleum Corporation.

This year, the government expects to raise 45bn tenge ($585m) in privatisation revenues, some 20 per cent of the state budget. As of May 1 it had raised 11bn tenge, according to Uraz Jandosov, the first deputy prime minister. "The blue chip programme is vital for our budget," said Mr Jandosov. But yesterday he said shares in several other leading state companies could be substituted if it proved impossible to launch the blue chip programme this year.

Possible substitutes include a stake in Kazakhoil, the holding company for the state-owned shares of Kazakhstan's oil industry.

Mr Jandosov emphasised, however, that the government did not want to modify its privatisation schedule: "It wasn't the decision of the government to start the privatisation of these companies this year, but if there are problems with the five blue chips, then we could put up shares in other companies."

Bahrain economy suffers as Shia dissent simmers

The Gulf state has failed to entice private sector investment as repression and recession feed off each other, writes **Robin Allen**

An eerie silence descends on the centre of Bahrain's capital Manama after the sun goes down and office workers leave to go home. Drivers continue to clog the peripheral highways late into the night, but few Bahrainis and fewer expatriates are in the city's shops.

Two new shopping malls are almost lifeless. In the near-deserted hotels Filipino singers go through the motions of crooning to a handful of businessmen and sailors in civilian clothes from the US naval base.

Away from the lights and the superficial suburban gentility of Manama, the tension is palpable in the poorer Shia villages. The occasional presence of police Land Rovers and black-uniformed security forces are reminders of the social unrest in which 40 people, including five police, have died over the past four years.

In the two years since the minority Sunni-dominated government carried out its first execution of a member of the Shia Moslem majority for "terrorist" activities, Bahrain's state security court, set up by the ruling al-Khalifa family, continues to crack down on the slightest sign of dissent. Last month the court, whose rulings are not subject to appeal, issued a three-month suspended jail term against five women accused of nothing more than "chanting slogans against the existing political system".

Bahrain is the smallest and least wealthy of the six Gulf monarchies, which own nearly 45 per cent of global oil reserves and some 15 per cent of the world's reserves of natural gas.

It is also the most crowded. The southern half of the island's 600 square kilometres is a restricted zone. Some 2,000 people per square kilometre live in the rest, a population density exceeded elsewhere only by Singapore.

Bahrain's service-based economy depends on gifts of oil and cash from Saudi Arabia. Bahrain has built up a financial services sector, hosting 180 different financial institutions including 46 offshore banking units (OBUs), which sell or market some 360 mutual funds, as well as oil and gas-based industries. But it has failed, according to businessmen, to entice private sector investment or to diversify beyond oil and aluminium. Annual per capita income, according to the World Bank and semi-official Bahraini sources, has fallen from $10,000 in 1985 to less than $7,500 in 1996, lower than Latvia.

Public dissent, particularly among the Shia majority, has a long history. Bahrain's al-Khalifa family holds all the important cabinet posts and its nominees head the bureaucracy. But the Shia make up 70 per cent of the island's 350,000 national population, half of whom are under 15. Advised by Ian Henderson, a reclusive 70-year old former colonial intelligence officer in Kenya, widely thought to have retired but still apparently the *eminence grise* behind the ruler Sheikh Isa Bin Sulman, the state security forces have "slammed the lid down" on physical displays of unrest. According to senior western diplomats, between 1,000 and 2,000 are in jail. Businessmen, academics and lawyers put the figure at more than 5,000.

A Bahraini girl in front of graffiti saying 'parliament' in Arabic AP

The crackdown has for the time being pushed the unrest off the streets. But the government's failure to tackle unemployment, more than 30 per cent among the Shia, to curb state corruption, to get the economy moving, or to give a more meaningful role to the so-called "consultative council" has resulted in spreading disaffection, including Sunni lawyers and academics as well as businessmen, who continue to push for economic and social reform.

In a US embassy handout three paragraphs are devoted to warning investors of "corruption, bribery and lack of transparency".

One US analyst, a regular visitor, remarked that in Bahrain substantial revenues from oil sales were unaccounted for. In Bahrain's 1998 budget there are no references to revenue estimates from any of the country's principal state-owned industries. Officials refuse to comment on these and other criticisms. Local publications are censored.

Repression has its price. Many in the private sector business community say the economy is flat and repression has made it worse. Repression and recession feed off each other.

For more than two years since the last outbreak of violence in December 1994, the government blamed Iran for formenting unrest. More recently it has blamed the European Union, and Britain in particular, for allowing the opposition to operate from London and for leading international criticism of the government's abuse of human rights. One member of the Bahrain Bar Association said: "We want the recall of parliament [dissolved in 1976], a limit to state corruption, release of detainees and the right of exiles to return home."

Critics of the government say one sinister development is the building by the ruling family of a *cordon sanitaire* around itself by giving nationality to between 8,000 and 10,000 Sunni families from Jordan, Syria, Pakistan and Yemen, whose men, working in the security services, would be loyal to the al-Khalifa family should unrest break out again on a scale which can no longer be contained.

"This is a war of attrition," said one lawyer. "The government can continue to own the main sectors of economic activity and clamp down on unrest, but unless it creates jobs and gets the economy moving, pressures from a rising population, from the lack of self-sustaining private sector investment, and increased unemployment will force their own changes."

NEWS DIGEST

AFRICAN ECONOMY

Insufficient savings rate likely to hit investment

Africa's economy is expected to grow 4 per cent this year but the region's low savings rate is not enough to finance the investment needed for rapid and sustained economic expansion, the Africa Development Bank warned yesterday.

The average savings rate of about 17 per cent of GDP "is barely sufficient to support higher investment required for growth", said the Bank in its annual report, and is well below the 24 per cent average of developing countries as a group.

The Bank, which marks its 25th anniversary this year, estimates that Africa's real GDP grew at an estimated 3.7 per cent in 1997, as against 5 per cent in 1996 and an average annual growth of 1.9 per cent for 1990-95.

Although 34 countries recorded growth above 4 per cent, the report notes that larger economies, notably South Africa, Nigeria, Morocco and Congo, registered low or negative rates

The continent's external debt stood at $315bn at the end of 1997, with Algeria, Egypt, Nigeria, South Africa, Morocco and Ivory Coast accounting for more than half.

About $5.5bn of foreign direct investment went to Africa in 1997, unchanged from 1996, amounting to 1.5 per cent of the total global investment flow. **Michael Holman, Africa Editor**

IRAN-SAUDI RELATIONS

Co-operation agreement signed

Iran and Saudi Arabia yesterday agreed to co-operate in a broad range of fields ranging from business and investment to culture and sports. The co-operation agreement was signed in Tehran by Prince Saud al-Faisal, Saudi foreign minister, and his Iranian counterpart, Kamal Kharrazi, according to Tehran radio.

Prince Saud's two-day visit is seen as a landmark in improving relations between the two Moslem states after two decades of rivalry for power and influence in the region.

The agreement defines co-operation in economic, commercial, technical, scientific, cultural, sports and joint investment fields, the state-run radio said. It includes the industrial and mining sectors, transport, trade, providing facilities for the two countries' businessmen and the expansion of tourism. The ministers also stressed co-operation in providing consular services, expansion of communications services, air and sea transport and environmental issues. **Reuters, Tehran**

UN PALESTINIAN AGENCY

Donors to urge reforms

Donors will today urge the United Nations relief and works agency (UNRWA) for Palestinian refugees to introduce reforms as they look at ways to bridge the agency's $20m deficit.

At a donor conference opening in Amman, the UK – the sixth largest donor – will announce a 35 per cent increase in its contribution to UNRWA from the $6m provided in 1997-1998 in an expression of support for the plight of Palestinian refugees.

The fate of the 3.4m refugees, scattered across the Gaza Strip, the West Bank, Jordan, Syria and Lebanon, is one of thorniest issues in the deadlocked peace process and is to be dealt with if and when final status talks begin.

Donors believe UNRWA is in need of administrative reform and some countries are reluctant to increase their funding before changes are implemented. **Roula Khalaf, London**

WORLD TRADE

Music group tries price harmony

By Alice Rawsthorn

PolyGram, Europe's largest music group, will launch two experimental promotions next month in which it will sell selected albums at the same wholesale price throughout Europe.

The promotions, which involve a dozen Rolling Stones' albums and "Best of" compilations by stars such as Elton John, Bon Jovi and Bryan Adams, come at a time when record companies face growing pressure to reduce price differentials across Europe in the approach to European Monetary Union.

PolyGram, which is poised to be taken over by Seagram, the Canadian entertainment group, in a $10.6bn deal, declined to disclose details of the promotions. However, it confirmed that it would be selling selected albums at identical prices in Europe on an experimental basis for a limited period starting in early June.

Traditionally, record companies have priced albums differently in each European country. The price is determined by a combination of exchange rates, local trading conditions and the stature of the artist in that market.

Typically, the wholesale price of an album varies by 10 per cent between France, generally the most expensive European country for recorded music, and Sweden, which is the cheapest.

Until recently, multinational music groups have been anxious to maintain price differentials across Europe, to protect their profit margins in more expensive markets such as France and Germany.

However, record companies have found it increasingly difficult to control the flow of products between various European countries since the abolition of border controls. The free flow of goods, coupled with advances in digital communications, has enabled record retailers and wholesalers to purchase albums cheaply in weak currency markets, such as Italy or Sweden, to sell them in stronger currency countries, notably the UK.

This increase in parallel imports, coupled with concern that consumers could object to paying different prices in different countries after the introduction of a common currency, has prompted several multinational music groups, including PolyGram and Bertelsmann, to review their European pricing strategies.

In next month's promotions, PolyGram will sell 12 Rolling Stones albums, mostly recorded in the 1960s, at identical wholesale prices throughout Europe. The "Best Of" albums will be sold at the same price in continental Europe but priced differently in the UK.

Hong Kong businesses look to the north for their star turns

As the territory's economic engines lose power, opportunities are opening up on the mainland, writes **John Ridding**

As Hong Kong's economy grinds to a halt and the Asian crisis continues to deepen, the territory's tycoons are fixing their gaze more firmly to the north.

An aquarium park, a housing project and a power plant were among the investment projects agreed by Cheng Kar-shun when the Hong Kong businessman paid a visit to the central province of Shanxi last month. His New World Development, the biggest investor in China, said a further RMB3bn-RMB4bn ($360m-$480m) would be spent in the province over the next three years.

A few days later, and a few hundred miles to the south, Cheung Kong Infrastructure (CKI) signed a contract to invest in two water treatment plants in Hunan province. The deal added to the RMB13bn in committed investment by the group, the infrastructure arm of Li Ka-shing's business empire.

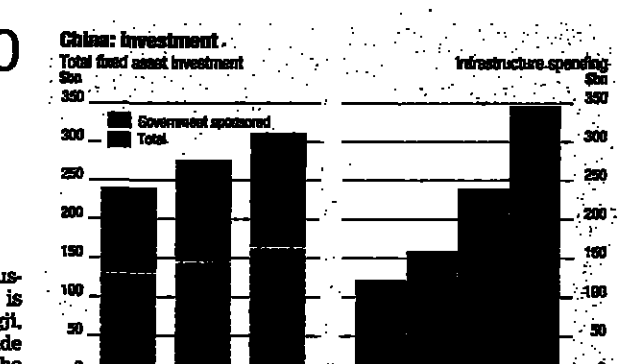
These projects are vital for China, which faces a collapse in investment from south-east Asia, Japan and Korea and which requires foreign capital and expertise to fuel its slowing economy. For Hong Kong they point to a significant structural shift. Although it has long been the biggest investor in China, the mainland has grown in importance as the territory's traditional engines, from property to retail, have lost power.

But the strategy is not without potential setbacks; profit in China is often elusive, and there are risks for the territory in tying its fortunes too closely to the mainland.

"The role of Hong Kong in China is increasing every day, but we must not forget our international role," says Vincent Lo, chairman of Shui On, the property and construction group. Hong Kong cannot afford to become just another Chinese city, he says. It must retain it role as a regional hub.

For now, however, attention is focused on the north. Shui On, for instance, will soon be topping out the first three blocks of a huge housing project in Shanghai. On completion the development will count 91 towers, each 34 stories high. The Yangtse basin, says Mr Lo, is particularly promising. The fact that two of his nephews have left Hong Kong to seek their fortunes in Shanghai is a sign of the times, he says.

Henderson, New World and most of the other big Hong Kong developers are becoming involved in housing projects, a trend which is likely to grow. Zhu Rongji, China's premier, has made housing a priority, while the developers face lacklustre prospects in Hong Kong's battered property market.



Infrastructure is an even bigger draw. "Almost all our capital investment is in China, and we are not going to slow down as a result of the economic situation," says H.L. Kam, group managing director of CKI. "In 1997 we invested close to half a billion Hong Kong dollars. We should at least achieve that this year."

Many of Hong Kong's conglomerates and the territory's big developers are well positioned for their mainland forays. Apart from their proximity, strong balance sheets ease the problem of financing, a growing constraint as banks adopt a cautious stance towards the region.

Hong Kong investors have also developed management networks on the mainland. "In the past 10 years we have been involved in over 50 investment projects in 10 provinces," says Victor Chu, chairman of First Eastern Investment.

The result, he says, is that his company is poised to make bolder moves on the mainland. Opportunities will be increased, he believes, by the reform of state-owned enterprises and the withdrawal of other Asian investors who are seeking to cover losses at home.

Casualties are increasingly common, however, and easy opportunities are rare. The risks are also as real as before. New World, one of the most experienced mainland investors, became entangled in a protracted legal dispute over an airport scheme in Wuhan, delaying the receipt of revenues. About half of the toll road projects covered in a recent study by Goldman Sachs fell short of traffic projections last year, while investment analysts say the economic slowdown is gathering pace and warn of a devaluation of the renminbi.

Faced with these hazards, Hong Kong investors have tailored their strategies. Many require a guaranteed minimum rate of return – 15 per cent in the case of Shui On's housing scheme. Contracts are frequently covered by an array of safeguard clauses in case of dispute.

But the degree of protection afforded by such measures is questionable. "Let's just say that you never want to test whether the legal clauses work," says one Hong Kong director.

CKI and many of the other big Hong Kong conglomerates are seeking to maximise returns by concentrating their projects. In Shantou, for instance, CKI has built roads and power plants, while other companies in Mr Li's stable have built hotels and a container terminal. "Each project adds value to the others," says Mr Kam.

The result is a growing number of Hong Kong strongholds in the big mainland cities. That may provide protection against the pitfalls of Chinese projects. But it is a clear signal that the fortunes of corporate Hong Kong are tied ever more closely to developments across the border.

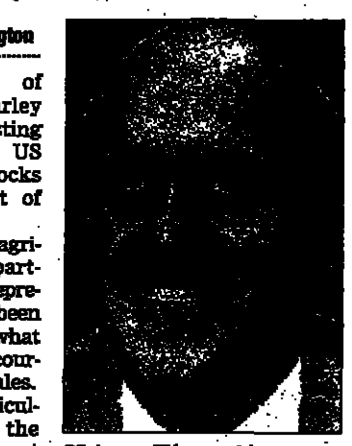
US protests against subsidised EU barley

By Nancy Dunne in Washington

A 30,000-tonne sale of subsidised Finnish barley will be met by protesting farmers and a formal US retaliation when it docks this week at the Port of Stockton, California.

US officials from the agriculture and state departments and the trade representative's office have been meeting to determine what action is needed to discourage further subsidised sales.

Dan Glickman, US agriculture secretary, said the European Union could not "expect our farmers to pay the price of their distorted farm policies".



Glickman: EU cannot 'expect our farmers to pay the price'

It is believed that the shipment is being subsidised at a rate of $51 per tonne – which would undercut US prices by about 20 per cent per bushel. US farmers are blaming an announcement of the subsidised sale for a drop in barley prices earlier this spring.

Madeleine Albright, US secretary of state, sent a protest letter to Jacques Santer, European Commission chairman, on Tuesday warning the US will respond in an "appropriate" fashion. The letter indicates how seriously the US regards the threat of trade war over the issue, as secretaries of state rarely become involved in agriculture trade disputes.

Grains farmers are furious about the shipment. "Wheat will be next if the US fails to take decisive action to stop any further subsidised sales of European grain into the US market," said Bill Flory, president of National Association of Wheat Growers. "We must send the message loud and clear that dumping must not be tolerated."

The timing of the shipment sale is particularly sensitive. Farm prices are generally lower this year, and US farmers are to receive less government help under the "Freedom to Farm Act".

Mr Glickman is being urged to resurrect the US export subsidy programme to subsidise US barley in third markets where the US and EU compete head-on. He could also impose countervailing duties to block future subsidised barley imports.

Franz Fischler, EU agriculture commissioner, defended the sale, calling it a reflection of high US barley prices compared with world prices. "The particular consignment in question... appears to be the result of very particular situations both as regards the exporter in Finland and the importer in the US, both of whom are private operators over which neither the Commission, nor I understand, the US government, has any control," he said.

Mr Flory said US farmers had already been hurt by "heavily subsidised and unfair pricing practices of the EU in offshore markets". He asked the US administration to seek immediate assurances from the EU that subsidies would not be used to gain further access to the US grain market.

Worries grow as maritime trade with Indonesia slows

By Sheila McNulty in Kuala Lumpur

Indonesia's maritime trade has come to almost a complete standstill in recent days, raising fears of a slowdown for the region's shipping and for the Port of Singapore, which handles around 60 per cent of Indonesia's container trade.

The PSA Corp, which controls Singapore's port, insists business is sound. Indonesian throughput handled at the Port of Singapore Authority was "still healthy", it said. "This is because, while imports have slowed, the demand for exports has increased due to the rupiah's devaluation."

But Richard Stokes, director of regional marine research at Indosuez W.I. Carr Securities in Singapore, says while 10 days or so ago containers leaving Jakarta were overflowing, exporters had difficulty finding ships for their goods because the fall in imports meant there were few inbound vessels.

"Delays of two weeks pre last week's troubles can now be expected to at least double," Mr Stokes said. "For exporters facing tight delivery dates, what may start out as penalties for late delivery can easily lead to outright cancellation."

He says a 60 per cent reduction in inbound cargo during the first quarter of this year forced the cancellation of Hong Kong's Orient Overseas Container Line's new Indonesia/Japan service. And Singapore's Neptune Orient Lines reported 60 per cent load factors out of Europe and as low as 40 per cent out of the US to south-east Asia.

There is also the likelihood of an increase in piracy. "What has become a mounting problem over the last two years is set to assume crisis proportions," Mr Stokes said.

White House seeks delay in China vote

By Nancy Dunne in Washington

The US administration is pushing for a delay in the annual vote on China's trade status, in an effort to stifle an embarrassing debate before President Bill Clinton leaves for a summit in Beijing on June 24.

The president has until June 3 to renew China's Most Favoured Nation trade status, an annual process which each year becomes a review – highly resented in Beijing – of China's actions on human rights, weapons proliferation and trade. After he renews MFN, Congress has 90 days to vote to overrule the president.

The annual MFN exercise started in the late 1970s and no Congress has yet overruled a presidential decision to grant the special trade status to China.

The president is expected eventually to push through MFN for China. But the process will be complicated by controversy about Chinese influence over the Democratic party, which has soured the atmosphere and brought heavy criticism down on the administration.

Congress is expected to agree to delay the vote, but observers believe attacks on the administration will only be deferred until after the summit. "This way Republicans get to rain on any positive publicity the president gets out of the trip," said one Democratic aide on Capitol Hill.

MFN status imposes the same low-level tariffs on Chinese goods as apply to imports from most other US trading partners. The US business community mounts a vast lobbying effort whenever the status seems in jeopardy: MFN status was granted even after the Chinese authorities' violent repression of protests in Beijing's Tiananmen Square nine years ago.

The administration is trying to head off two controversies. First, it became known that Johnny Chung, a California businessman who contributed heavily to the Democratic party, received some of his money from Liu Chaoying, the daughter of China's most powerful military official. These revelations put Ms Liu at the centre of a Justice Department investigation into alleged Chinese attempts to influence the 1996 elections.

Republicans have also fiercely criticised the president for issuing an export licence for the launch of a US satellite aboard a Chinese rocket. The satellite was built by Space Systems/Loral, whose chairman had made large contributions to the Democratic party. When the licence was granted, the company was reported to be under investigation by the Justice Department for passing sensitive information to the Chinese.

Feature, Page 13

Catastrophe bonds are ready, but where are the hurricanes?

Wall Street investment banks have invented products allowing calamity risks to be securitised and traded, but 1997 proved to be a disastrous year for disasters. John Authers reports

Over the next few months Hurricane Otto or Hurricane Agatha may give Wall Street's newest product a much needed boost.

Names have already been designated for the annual US hurricane season, which starts on June 1. Hurricanes have the power to inflict severe damage on the profits of US insurers, as was demonstrated most dramatically when Hurricane Andrew hit southern Florida and Louisiana in 1992, bringing insured losses of $15.5m in its wake.

This was the worst of a series of catastrophes – others included Hurricane Hugo in 1989, which cost $4.2bn, and the Northridge earthquake of 1994, which cost $12.5bn. This led the industry to look for alternative ways of financing risks, and increasing their capacity.

Wall Street believed it had the answer. All the largest investment banks have devoted resources to inventing products which allow catastrophe risks to be securitised and traded on the market. All the instruments involved are complicated, but they usually involve insurers issuing bonds and retaining the right to withhold interest payments if a given severe weather event or hurricane occurs. (A catastrophe is any single event creating losses of $25m or more for the industry.)

If there is no catastrophe, investors will generally receive a return slightly better than would have been available from investing in blue-chip corporate bonds. If disaster strikes, on the other hand, they lose their interest payments, while in some of the products launched some of their capital might also be at risk.

This is different from conventional reinsurance, which involves insurance companies in paying premiums to a reinsurance company to cover themselves against losses above a particular level.

The argument was that the total volume of reinsurance business which US companies could safely write, estimated at about $260bn by A.M. Best, the rating agency, was dwarfed by the total amount traded on world securities markets. Insurance risks could eventually be traded in the way that mortgages are now securitised and traded like bonds.

One investment banker said securitised catastrophe bonds would replace traditional reinsurance "as sure as night follows day". After a number of failed attempts in 1996, several catastrophe bonds were successfully launched ahead of last year's hurricane season.

According to the New York-based Insurance Services Organisation the total amount raised by these bonds so far is $1.3bn in seven separate deals.

But, unfortunately for the investment banks, last year proved to be the most lenient hurricane season in a decade, with total US catastrophe losses of only $2.6bn. Annual losses had been at least double this every year since 1991.

The first quarter of this year was also relatively mild for insurers, with $1bn in catastrophe losses. Investment banks pointed out that this would reassure investors and encourage them to buy catastrophe bonds in future. But it also sharply reduced the potential supply of the bonds.

Reinsurance companies took the opportunity to increase the amount of business they could underwrite, and to cut their prices, making it much harder for the securities industry to compete.

It now seems unlikely that many more catastrophe bonds will be launched this year than last. Only one such bond, worth $84m, has been launched so far, although several other deals appear to be near completion.

Senior insurers believe it will be many years until the bonds take a big share of the market. According to Hank Greenberg, chief executive of American International Group, the largest US insurer: "As long as reinsurance rates are as low as they are, I don't think there's a big market for the financial sector to securitise. The financial sector will be there, and there will be a time for it. But at the moment there's no need for it, and it's not going to break down the walls in the foreseeable future."

Mr Greenberg's view is typical. While in 1996 discussion of competition from securities markets dominated the industry in the US, most now believe the trend will take much longer to become established.

Ramani Ayer, chief executive of The Hartford, another of the largest US insurers, takes a similar view. He points out that it will be difficult for the financial sector to duplicate insurers' expertise in pricing risks.

He said: "When you are able to take a portfolio of risks then you should be able to securitise that portfolio. There's a lot of belief that it's a trend which will happen with time. But I don't see that happening dramatically or happening soon, because there's a very substantial amount of competency which is needed to underwrite reinsurance products, and securitising isn't the only component. Insurance involves a lot more than just the transfer of risk."

This leaves the nascent market for catastrophe bonds in need of another serious weather event on the scale of Hurricanes Andrew or Hugo.

Jeanne Dunleavy, an insurance analyst at A.M. Best, said: "Unless you are going to be a pioneer, people can't economically justify going to the capital markets at this time, instead of taking traditional reinsurance. I think another big catastrophe would cause capacity to dry up and pricing to go up. That would cause people to look for more economical coverage."

She points out that Hurricane Andrew in 1992 created a demand for extra reinsurance capacity, and led swiftly to the creation of a large new reinsurance industry on Bermuda.

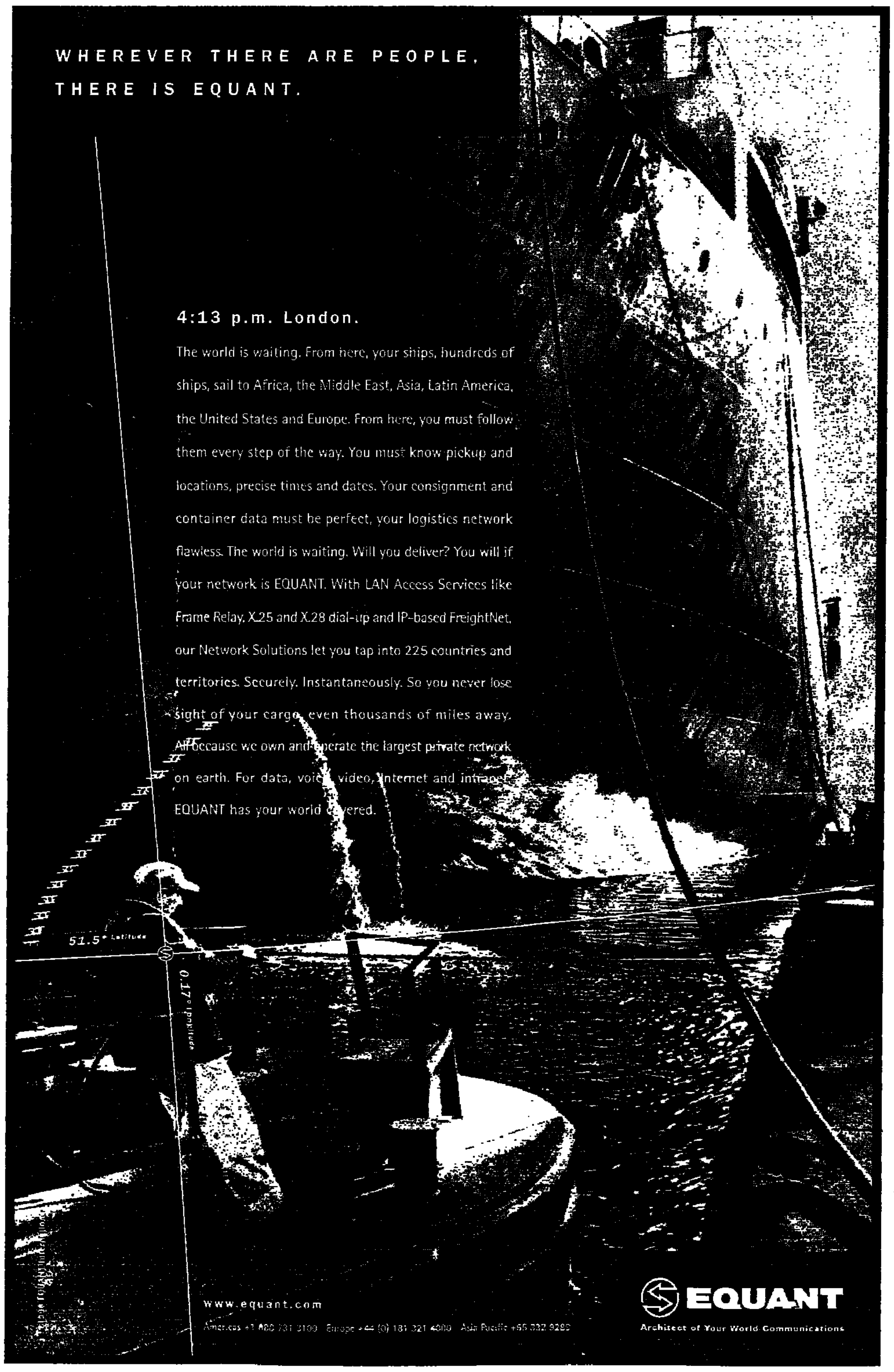
But investment bankers are confident of the future for securitised insurance, suggesting it could be applied to risks other than catastrophes, or sold directly to corporations rather than insurers.

One investment banker suggested that capital markets could match the prices on offer from reinsurers. He said: "Even though the reinsurance markets are less expensive this year than they were last year, pricing in the capital markets has improved at a much more significant rate, and that's a function of investors becoming much more comfortable with the risk analysis that's available to them." He added that the new market would, like the securitised mortgage market before it, need to cross two thresholds before establishing itself.

First, it would need a "critical mass" of different risks, so investors can gain exposure to a range of different weather events and gain the advantage of diversification. Second, it would need a critical mass in terms of the sheer amount of deals written.

But he admitted: "There is one difference, which is that there was no alternative market for mortgage risk. For insurance-related risks, there's already a reinsurance market. It's a cyclical market, and it happens to be very healthy at the moment."

After the storm is over



Court ban sought on Argentine gas pipeline

By Ken Warn in Buenos Aires

Greenpeace was yesterday seeking a court injunction against Argentina's gas industry regulator Enargas to halt construction of a $400m gas pipeline.

The trans-Andean pipeline, planned by the NorAndino consortium – which includes Tractebel of Belgium and Southern Electric of the US – would pass through the Yungas rainforest in northern Argentina. The environmental group says the pipeline threatens Argentina's dwindling jaguar population.

Its officials yesterday met Susana Cordoba, federal judge, and Jorge Maiorano, national ombudsman, to try to halt construction on the grounds that Enargas did not hold a public hearing.

"We are not against the pipeline in itself," said a Greenpeace spokeswoman, Claudia Molina. "We just don't want it to pass through this sensitive area. We have also long opposed forestry projects there."

The NorAndino project is one of three rival schemes in the region aimed at transporting energy across the Andes to serve Chile's power-hungry mining belt. The GasAtacama project, whose main partners are CMS Energy of the US and Chile's Endesa, would transport gas via a more southerly route, away from the rainforest.

Chile's Chilgener has also embarked on a $575m project to generate electricity from gas in Salta province and transport it across the Andes through a transmission line.

Analysts said there is insufficient demand for all three schemes to be viable. Talks this year aimed at merging the two pipeline projects appear to have foundered.

Any delay to the NorAndino project could be a severe setback. Building work on the GasAtacama scheme is already under way. If the judge rules in favour of Greenpeace, permission to build the NorAndino pipeline would be revoked and a public hearing would be called.

Greenpeace said the Jungas rainforest is the country's most biodiverse region and says the 1,000km pipeline would cut through the home of the endangered jaguars. Only an estimated 200 jaguars, the largest wild cats in South America, are left.

Mexican bank fights charge

By Leslie Crawford in Mexico City

Banca Serfin, Mexico's third-largest bank, is to plead not guilty to charges of money laundering brought by a federal grand jury in the US.

Serfin, as well as Bancomer, Mexico's second-largest bank, and Confia, a smaller financial group recently acquired by Citibank, were indicted last week following a secret three-year investigation which US officials say exposed a "systematic pattern" of money laundering through Mexico's financial system.

According to the US Department of Justice, Serfin is alleged to have laundered $7.7m for drug traffickers during the period of investigation.

Bancomer is alleged to have laundered $20.6m and Confia $11m. US Justice Department officials said they felt the pattern of money laundering through these three banks was so systemic it would not be enough to indict individual employees.

In a statement, Banca Serfin said it had not had access to the evidence presented by US authorities before the grand jury, but it would "defend its innocence".

Bancomer said it had asked William Isaac, former chairman of the Federal Deposit Insurance Corporation in the US, to conduct an independent investigation of the accusations.

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The company.

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Thanks to D2, Arcor and our participations – Omnitel and Infostrada in Italy, and Cegetel in France – we're well on our way to becoming the leading private telecom provider in Europe. In digital mobile telecommunications, D2 is already market leader in Germany. Today, the Telecommunications segment generates the Group's biggest earnings contribution.

Your advantages.

With Arcor and D2 we aim to offer all the advantages of an integrated communications company and are already realizing marketing and cost synergies for the benefit of our customers. Arcor runs a high-performance, full coverage wireline network, reaching the heart of every city in Germany. Building on the strength of D2, Mannesmann has consistently exploited the opportunities of today's Information Age. Our aim? To further sharpen our European edge.

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With Mannesmann Demag, Mannesmann Dematic, Mannesmann Rexroth and Krauss-Maffei, we rank among the world's leading suppliers in mechanical engineering. Mannesmann Engineering is No.1 in hydraulics, material handling and plastics machinery. We aim to optimize our product portfolio to enhance profitability and secure future growth.

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  - German market leader in digital mobile telecommunications.
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Tung Chee-hwa: 'We are in the depth of a major economic adjustment, the result of which may be prolonged and painful' Reuters

Hong Kong sees decline in output

By John Ridding in Hong Kong

Hong Kong's economic downturn is much more severe than anticipated, with first-quarter growth figures due tomorrow set to show a fall in output and to signal the territory's first recession since 1985.

Donald Tsang, financial secretary, said the first quarter had been "very rough".

Mr Tsang declined to comment on the first quarter statistics, but official sources and economists said first-quarter output had fallen by as much as 2 per cent year-on-year. Many private economists expect a further fall this quarter.

"We are in the depth of a major economic adjustment, the result of which may be prolonged and painful," warned Tung Chee-hwa, the territory's chief executive. Speaking late on Tuesday, he said economic growth would fall substantially and may even be negative.

Mr Tung's statement, his bleakest assessment of the territory's economic performance, stunned investors. The benchmark Hang Seng Index fell by 5.3 per cent to 8,983, below the psychological 9,000 level and almost 25 per cent below its March high.

Investment analysts said the government appeared to have waited until after this week's legislative election to signal the severity of the downturn. Last weekend Mr Tsang said he saw no need to revise his forecast of 3.5 per cent growth for the year.

While Hong Kong has proved relatively resilient in the face of the regional economic crisis, it has been hurt by a rise in interest rates to defend its currency peg to the US dollar. The administration remains committed to the currency link, and economists argue that adjusting the mechanism would further damage confidence. But the rise in rates has prompted a sharp fall in property prices. Tourism and retail spending have collapsed as a result of the regional economic turmoil.

"We are seeing just the beginning of a major dip," said Dong Tao, senior regional economist at CSFB. "We will see negative growth this year for sure," he added.

Other analysts revised down growth and earnings forecasts for the year. HSBC Securities halved its gross domestic product forecast to 1 per cent growth, while the Hong Kong General Chamber of Commerce, cut its estimate from 4 per cent to 2 per cent.

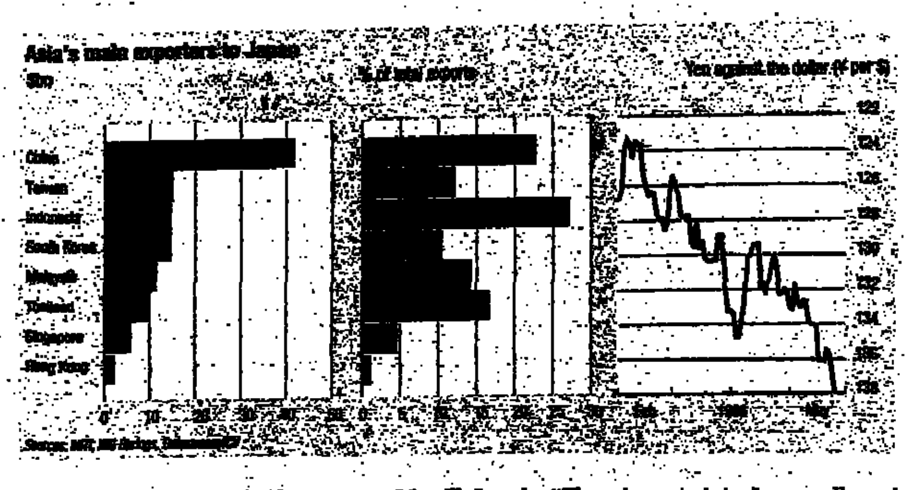
While warning of the severity of the downturn, the government urged calm. "The fundamentals of our economy are very good. Our banking system is very healthy," said Mr Tsang.

Mr Tung underlined the need to restore competitiveness after years of rising property prices and high inflation, but said the government would be "flexible" in the supply of land. "The government does not wish to see a collapse in property prices," he said. The chief executive added that Hong Kong's economy would be supported by its strong financial reserves and the continued growth in the mainland Chinese economy.

While surprised by the speed of the economic decline, some economists cited positive factors. "The speed of restructuring shows the flexibility of the economy," said Clive McDonnell, head of economic research for North Asia at SG Securities.

Weakening yen threatens to take neighbours down with it

Further falls could have a devastating effect on other east Asian countries needing to export more and threaten the stability of the HK dollar and the Chinese renminbi, writes **Paul Abrahams**



The entrance to the Tokyo headquarters of the Keidanren, Japan's most influential business pressure group, is dominated by an electronic display board. It does not show the Nikkei 225 index, nor the yield on the 10-year benchmark bond. Rather, it provides just one figure – the dollar-yen rate.

In recent days, the executives entering the building have been glancing up at the board with more concern than usual. Whereas in 1995 they were anxious about the yen's strength – it reached a high against the dollar of Y80 – now they are worried by its weakness. Since February, the yen has depreciated more than 11 per cent. Last night it closed in Tokyo at Y137.5.

The question is no longer whether the Japanese authorities can halt the slide – they almost certainly cannot – but whether they can control the speed of its decline. Only last month analysts were talking privately about the yen reaching Y150 late this year. Now some are even mentioning a figure of Y180.

Such a fall could have a devastating effect on other east Asian countries for whom Japan is the biggest, or second-biggest, export market. It could also put the currencies of Hong Kong and China – which are pegged to the US dollar – under more pressure.

"Even a rate of Y160 or Y155 to the dollar is fairly scary," says Ron Bevacqua, economist at Merrill Lynch in Japan. "The Chinese and Hong Kong economies are already decelerating sharply, and a yen that cheap could force them to devalue – not this year perhaps, but possibly next. That would lead to further competitive devaluations across the region, plunging the region back into crisis. I don't want to be too bearish, but it's a feasible scenario."

At the heart of the problem are the interest rate differentials between assets in the US and Japan. US treasury bonds are offering a yield of about 5.8 per cent, Japanese long bonds about 1.4 per cent. "For Japanese investors, the combination of the yield and the depreciation offers a 16 per cent differential – that's a powerful incentive to go offshore," says Michael Naldrett, economist at Dresdner Kleinwort Benson in Tokyo.

These differentials are a stark reflection of the respective strengths of the US and Japanese economies. The consensus forecast for Japanese economic growth this year is a contraction of 0.4 per cent. The US economy is expected to expand 3.1 per cent.

Even though this has been known in the market for some time, Japan's terrible fundamentals have not been reflected in the exchange rate. This is because investors believed the Bank of Japan (BoJ), possibly with the US authorities, would intervene to support the yen.

What has caused the recent acceleration in the yen's slide was a change in perception of BoJ and US Treasury policies. At the end of last week it became apparent that a substantial minority of the BoJ's policy-making committee believed Japanese short-term rates, already at a record low of 0.5 per cent, should be cut further.

This appeared to suggest the Japanese authorities were relaxed about further depreciation, an attitude apparently confirmed by the lack of intervention in the currency markets this week. The last attempt cost Japan 10 per cent of its exchange reserves and had no lasting impact in changing sentiment.

As for the US, on Monday, an unsourced article in US News and World Report magazine suggested Robert Rubin, the US Treasury secretary, was willing to let the Japanese currency plunge if that was the only way of keeping the world's second biggest economy from collapsing.

"Even though the report was denied, it merely stated the obvious," says Mr Bevacqua at Merrill Lynch. "The US Treasury views a strong dollar as deflationary, slowing down the economy without the need to raise interest rates. Rubin doesn't want the yen falling off a cliff. If the yen is going to depreciate, he wants it to decline in an orderly manner."

Even so, an orderly decline would provide little relief for the rest of Asia. True, over the past 18 months, on a trade-weighted basis, the yen has actually appreciated. But the rest of Asia needs Japan, which accounts for 70 per cent of the region's gross domestic product, to import its goods in large and increasing quantities.

That is not happening. In the first 10 days of May, imports into Japan collapsed 28 per cent year-on-year. A depreciating yen will only hit imports more.

Relief will come only when the economic fundamentals in the US or Japan change, insists Peter Morgan, economist at HSBC in Tokyo. Changes in Japanese tax regulations could change sentiment, but such reforms are not expected until later this year at the earliest. Otherwise a surprise bailout of Japan's troubled banking system could prevent higher unemployment and boost domestic demand.

The alternative is a crash in the US equity markets, which would have its own worrying global consequences.

Plan for public funds to write off bad loans

By Gillian Tett in Tokyo

Japan should use public funds to help write off the banks' mountain of bad loans, a politician in Japan's ruling Liberal Democratic party proposed yesterday. Public money should also be spent to force through a wave of mergers among the banks, said Yoshimi Watanabe, the LDP member.

Mr Watanabe did not provide details of his plans but his comments will attract market attention because earlier this year he was the first LDP member to propose injecting public funds into the banks' capital base.

Since then Y1,800bn ($13bn) has been injected into the banks.

The comments come amid growing signs that the LDP will soon unveil a second set of proposals to tackle Japan's financial problems. Earlier this month Ryutaro Hashimoto, Japan's prime minister, pledged new policy steps to a meeting of the Group of Eight industrialised nations. In recent days the LDP has been engaged in intensive internal discussions about the bad loan issue.

The debate has been given added urgency by the release of worse-than-expected banking results last week.

These showed that total problem loans at the top 18 banks had risen to Y22,000bn from earlier estimates of Y16,000bn because of the introduction of tighter, US-style accounting standards.

The ideas currently being discussed in the LDP include a proposal to establish a new institution that would clear the bad loans by:

■ Purchasing real estate or other collateral from banks;

■ Giving banks tax breaks if they make bad loan disposals;

■ Establishing a new judicial structure to settle loan disputes and combat the threat posed by *yakuza* gangsters;

■ Setting up a public bank to purchase the healthy parts of collapsed banks.

The debate has prompted hopes among some western diplomats and investors that the Japanese government is finally preparing to take sweeping measures to resolve the financial problems.

The banks' problems yesterday prompted Moody's the US credit rating agency, to downgrade the debt of Bank of Tokyo-Mitsubishi, Dai-Ichi Kangyo, Sakura, Industrial Bank of Japan and Sumitomo.

IMF widens Jakarta contacts

By Gwen Robinson in Jakarta

The International Monetary Fund has taken the unprecedented step in Jakarta of arranging discreet meetings with a wide range of Indonesian opposition leaders, labour activists and pro-democracy campaigners in an effort to forge new political ties across a broad spectrum.

For the IMF, which has frequently insisted its work precludes political involvement, the meetings constitute a significant break with established procedures and a fundamental shift in its approach to Indonesia.

The move is a clear acknowledgement that Indonesia's intense political upheavals cannot be separated from the course of the economy.

More significantly, it suggests the new government of Jusuf Habibie, who last week replaced former President Suharto, is being viewed as a transitional regime.

Michel Camdessus, IMF managing director, recently rejected suggestions that the Fund should be more concerned with the political situation in Indonesia and insisted that its work was "economics – not politics".

Last week, however, Mr Camdessus and other IMF executives stressed political stability as a prerequisite for further economic assistance. Some critics said the IMF's poor political judgment and lack of information led to the breakdown of two earlier economic reform programmes linked to the IMF-sponsored $42bn rescue package.

The third reform accord, signed weeks before Mr Suharto's resignation last Thursday, was suspended in the ensuing turbulence.

Hubert Neiss, the Fund's Asia-Pacific director, arrived in Jakarta on Tuesday to meet Mr Habibie and economic ministers. But from today he will meet a range of opposition leaders including Amien Rais, leader of one of the country's largest Moslem organisations and a fierce critic of Mr Suharto.

Mr Neiss will also meet Megawati Sukarnoputri, daughter of the late President Sukarno; Muchtar Pakpahan, a labour activist and former political prisoner who was released from prison on Tuesday; and five other opposition figures including Emil Salim, an economist and former cabinet minister.

Government may take control of Indonesian bank

By Sander Thoenes and Gwen Robinson in Jakarta

Indonesia's government is expected to take control of the country's largest private bank, owned by relatives and friends of former President Suharto, raising concern that his resignation is also bringing down large business empires.

Economists and business executives said the Indonesian Bank Restructuring Agency (IBRA), set up earlier this year to salvage the troubled banking sector, would take control of Bank Central Asia (BCA). The agency may nationalise part of BCA's equity to compensate for big central bank loans to the bank in response to an ongoing rush on its deposits.

Officials at BCA and the agency denied rumours the bank had already been taken over. A central bank staff member said the decision had "not yet" been taken.

BCA reported Rp52,638bn ($4.8bn) in assets by December 31, 1997, including just over Rp40,000bn in deposits or 12 per cent of the total deposit base in Indonesia at the time. Two of Mr Suharto's children own 30 per cent of BCA, while executives of Salim Group, Indonesia's largest conglomerate, own 70 per cent. Trading in Indofood, a subsidary of the Salim Group, was suspended on the Jakarta stock exchange yesterday after its share price dropped sharply on rumors that its dominant position in flour-milling would be investigated.

"If the Salim Group is damaged, it will reverberate throughout the economy," said Tom Inglis, head of research for ING Barings in Jakarta.

Separately, officials said yesterday tax breaks for well connected companies could be revoked, contracts with Suharto family businesses would be reviewed and a charity fund run by a daughter-in-law of Mr Suharto would be audited.

A drive against associates of the old government could boost the President Habibie's position. But diplomats warn it could also scare foreign investors and ethnic Chinese tycoons, who control much of the economy.

The fate of BCA may give a foretaste of what may happen to businesses associated with Mr Suharto's family.

Rioters destroyed 122 BCA branches last month. The looting sparked a run on the bank, which turned into a panic rush when Mr Suharto resigned as customers assumed the government would no longer protect BCA's assets.

Central bank data show a rise of Rp8,715bn in credits to commercial banks in the week up to May 22, much believed to be to BCA. The central bank said it would lend up to twice the bank's capital, which is estimated at just under Rp3,000bn, before putting it under IBRA. Outstanding central bank credits to commercial banks reached Rp102,550bn last week, much of which will be billed to a badly depleted government budget.

NEWS DIGEST

NUCLEAR WEAPONS

India ready for 'no first use' accord with Pakistan

India yesterday said it was ready to negotiate a "no first use" nuclear agreement with Pakistan, its south Asian rival which is also threatening nuclear test explosions, and other states. Atal Behari Vajpayee, prime minister, said in a speech to parliament that while India's recent tests demonstrated the country to be a "nuclear weapon state", Delhi would continue to pursue global nuclear disarmament in international forums and refrain from exporting nuclear technology. Meanwhile, activists of the Communist Party of India wore masks of Mr Vajpayee and Sushma Swaraj, information minister, at a demonstration near parliament (left) to protest against India's recent nuclear tests.

Mr Vajpayee's remarks disappointed western diplomats, who had hoped that India would make a more formal commitment to signing up to the Comprehensive Test Ban Treaty, a move India has so far refused.

The Indian statement came amid unconfirmed US media reports that Pakistan had completed preparations to conduct its own nuclear test, reports which senior Pakistani officials pointedly failed to deny. **Mark Nicholson, New Delhi**

JAPAN POWER SECTOR

Companies eye cuts in bills

Large Japanese companies may from next year be able to cut their electricity bills by up to 30 per cent by buying directly from independent power producers (IPPs) rather than regional electricity monopolies.

A government advisory panel yesterday put forward plans to allow independent power producers – mainly companies in industries such as steel and chemicals – to sell excess electricity they generate directly to large power users. IPPs tend to price electricity at 20 to 30 per cent below standard rates.

The panel, advising the Ministry of International Trade and Industry (Miti), will carry out further studies of how the liberalisation should be implemented, but it could take effect as early as the next financial year.

Recent deregulation allowed IPPs to bid to supply excess power to the regional electricity companies, or to use the electricity companies' lines to transmit power to other sites of the same company.

But so far many more IPPs have bid to sell electricity than have been accepted by the power companies, and they are not currently allowed to sell directly to end users.

The high cost of electricity in Japan has prompted an increasing number of companies to generate more of their own power. **Bethan Hutton, Tokyo**

KARACHI STOCK MARKET

Security tight after rioting

The management of the Karachi stock market, Pakistan's main bourse, yesterday doubled the number of private security guards across its trading hall and sought police protection, following riots by traders on the floor on Wednesday.

Traders had protested at the proposed introduction of computerised trading, which they say could cost 2,000 jobs. Yesterday, however, the violence appeared to have ended.

The KSE-100 share index closed 6.1 per cent down yesterday. Share prices have fallen consistently in the past two weeks, mainly driven by anxieties over the fallout for the economy if Pakistan conducts its first ever nuclear test, responding to the five tests by India earlier this month. **Farhan Bokhari, Islamabad**

Watchdog to consider ban on takeovers by 'creeping'

By Jane Martinson, Investment Correspondent

The Takeover Panel is set to review the so-called "creeper" provision which allows shareholders to build up stakes gradually in a company until they gain control.

Alistair Defriez, director general of the panel, is to recommend that the provision is abolished at the next meeting of the panel in July. "I think there is a strong intellectual argument for changing the code, but the panel has to decide," he said yesterday.

The move follows the controversial bid for Astec, the electronic power supply group, by Emerson Electric. The US group started with a large stake in its target and achieved control by buying up to 1 per cent each year.

This is allowed under rule nine of the Takeover Code governing mandatory bids. Companies normally have to launch a bid if they hold more than 29.9 per cent. But there are several circumstances under which they can own up to 49.9 per cent with the consent of other shareholders.

Astec's minority shareholders failed in their unprecedented court challenge against Emerson earlier this month.

Although Emerson is outside the panel's jurisdiction as a Hong Kong-based company, several investors felt the case highlighted an unintended consequence of the "creeper" provision.

One institutional investor said yesterday: "We are trying to avoid a repeat of Emerson." Mr Defriez says that his decision to put the issue to the panel comes in response to the concerns of these investors.

There could be some opposition to abolition by investors who believe the creeper provision provides useful flexibility. When the issue was last reviewed by the panel six years ago, investors argued that there are some instances – for example in investment trusts – where large shareholders may want to buy at a discount without taking control. This review resulted in a reduction in the limit from 2 per cent to 1 per cent a year.

If the 18-strong panel agrees to abolition in July, change could come relatively promptly. Any action could head off the threat of intervention by the government as part of its wide-ranging review of company law.

The panel is set to publish a revised code shortly. It decided to modernise its rules following criticism that it was not doing enough to ensure fair play. Among the changes will be a ban on advisers to companies facing hostile bids buying the target company's shares. Predators making paper bids are also to be prevented from buying up to 10 per cent of their target's shares for cash.

Mr Defriez said the planned publication was "at an advanced stage". It had taken longer than expected for administrative reasons.

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NORTHERN IRELAND IN WAKE OF PEACE DEAL, SINN FEIN PRESIDENT ARRIVES IN US FOR PARTY'S BIGGEST FUND DRIVE SINCE 1994

Adams tour aims to forge Wall Street ties

By Victoria Griffith in Boston and Richard Wolffe in Washington

Gerry Adams, the Sinn Féin president, arrived in New York yesterday for the Irish republican movement's biggest fundraising tour since the start of the peace process four years ago. Sinn Féin is the political wing of the Irish Republican Army.

Armed with legitimacy afforded by the April peace agreement, and displaying the demeanour of a conquering hero, Mr Adams appeared determined to forge fresh ties with Wall Street and US business.

This morning he will tour the New York Stock Exchange, and this evening he will host a $1,000-a-head black-tie dinner at the World Trade Centre. It will be the first time Sinn Féin has ever tried to raise money in New York's financial district. Money from the event will go to the campaigns for Sinn Féin's candidates in the June elections for the new Northern Ireland assembly.

Mr Adams also hopes to cement his new-found status in the American mainstream as a legitimate political leader. Friends of Sinn Féin, the party's US arm, said that Mr Adams will meet President Bill Clinton tomorrow, although the White House refused to confirm the appointment, saying only that it was a possibility.

The trip comes against a background of increasing goodwill towards Northern Ireland in the US. On June 7, William Daley, the US Commerce Secretary, will lead a trip to Northern Ireland and the border counties of the Irish Republic to explore investment opportunities.

The US Commerce Department said response to the trip had been overwhelming. Already, General Electric, Monsanto, Motorola, Fruit of the Loom, Pfizer and Pitney-Bowes have signed up for the excursion, which the US is billing as an important step towards lasting peace. "Peace and economic stability go hand in hand," Mr Daley said.

US interest in pharmaceutical and biotechnology investments is expected to be particularly strong. The impact of a Congressional amendment that exempted US corporations based in Ireland from paying tax at the US rate may now be felt in full. US companies in Ireland have to pay taxes on just 10 per cent of profits, instead of the 33 per cent required in other countries.

"Closer economic ties between the two countries is a natural progression from the peace accord," said Larry Downes, president of Friends of Sinn Féin.

By reaching out to non-Irish-Americans as well as its traditional Irish-American base, Sinn Féin expects to raise more than $100,000 in the few days Mr Adams is in the US.

The organisation has gathered $2.5m since 1995, although donations slowed to a trickle after the IRA ended its first ceasefire in 1996 and Mr Adams was barred from entry to the US.

"The doors for Sinn Féin are opening wider as the quest for peace accelerates," said Ray O'Hanlon, editor of the New York-based Irish Echo newspaper.

In spite of the optimism, there are strong pockets of resistance to the new peace accord in the US. Supporters of Republican Sinn Féin – a small rival group which opposed the Irish peace agreement – met last weekend in New York to discuss new strategies.

They formed a national Irish Freedom Committee, which will channel money to the families of political prisoners not protected by the peace agreement.

"We plan to buy a van to shuttle the families back and forth from prison," said John McDonagh, one of the organisers. "We won't be funnelling money to military activities."

Republican SF activists are handing out leaflets at Mr Adams' appearances, asking Americans not to give money to mainstream Sinn Féin.

The group also plans to organise its own fundraisers, using teleconferencing to access speakers, many of whom are currently denied visas to the US.

"The trouble is that Americans are only hearing one side of the story, since the leaders against the accord are not allowed into the country," said Joe Dylan, a Boston-based activist.

But even opponents of the peace accord admit that the general mood in the US is optimistic.

Priests 'may help decommissioning'

Priests or lawyers could provide an acceptable conduit for the Irish Republican Army to "decommission" its weapons, Gen John de Chastelain said yesterday, John Murray Brown writes. The former Canadian armed forces chief (right, at the Europa Hotel, target of many terrorist bombings in Northern Ireland's main city of Belfast) was appointed to oversee the destruction of the region's paramilitary arsenals. The notion that decommissioning could be conducted without direct contact with paramilitary groups represents a new offer from his independent commission, which has made little progress.

"A priest or a lawyer is fine. It can be anyone designated by the paramilitaries as an intermediary, but we must have a point of contact," Gen de Chastelain said.

Picture: Crispin Rodwell

Brussels backs resumption of region's beef exports

By Michael Smith in Brussels

Northern Ireland can start exporting beef from next Monday for the first time for more than two years, the European Commission decided yesterday.

The decision is the biggest breakthrough the UK has achieved in its battle to overturn the beef export ban imposed by the European Union in 1996 when scientists found a potential link between BSE or "mad cow disease" and nvCJD, a similar illness affecting human beings.

Although Northern Ireland exports will begin slowly, hopes are rising that the EU will later this year approve a scheme that would allow export sales of beef from the UK mainland.

The commission said yesterday that it expected to bring forward a draft proposal in the next few weeks to allow exports of beef from animals born after August 1996, which applies to most of the UK's beef herd.

Although it is unlikely that EU nations will back the UK-wide scheme immediately, commission officials believe approval in the autumn is possible. Northern Ireland has been cleared earlier because it has a computerised monitoring system which Brussels says provides sufficient safeguards.

Some 97 per cent of Northern Ireland beef herds have never had a case of the disease. The commission said yesterday that exports will be restricted to products derived from animals which were born, raised and had remained in certified herds during their entire life.

In addition, the entire production chain from slaughtering, cutting and storing to final dispatch should take place in Northern Ireland in establishments reserved for the handling of eligible products. So far only two meat plants have been approved, but others are expected to follow. The decision lays down a series of stipulations designed to ensure strict official controls, labelling and certification and the traceability of meat and meat products back to the herd of origin.

In the year before the ban, Northern Ireland produced 70,000 tonnes of beef. More than half of this was exported, earning the region £220m ($367.4m) from countries including France, Netherlands, Italy, Spain and South Africa.

Winning back the markets may prove difficult. Other exporters have filled the gaps and the high value of the pound is an obstacle.

The commission said satisfactory progress had been made in the UK to eradicate BSE. At the peak of the epidemic, in 1992, 37,820 cases were confirmed but by last year this had fallen to 3,396. More than 3m cattle have been destroyed.

The 'big four' pension fund managers battle for balance

Recent events have focused attention on significant changes in the sector, **Jane Martinson** reports

After a bad year for the four largest pension fund managers in the UK, the past few weeks have focused attention on changes in the industry and their place in it.

The UK's big four – Mercury Asset Management, Schroders, PDFM and Gartmore – have increased their market share significantly since 1990, largely by winning balanced fund mandates. This method, the most common way of managing pension fund assets in the UK, gives one fund manager discretion to invest across a range of asset classes.

Even the largest funds of several billion pounds typically employ only a few managers. This has fed increased concentration in an industry where the "IBM syndrome" means the biggest has appeared to be the best and safest bet.

But several events this year suggest that the industry is going through sporadic but fundamental change. The most recent was the decision by Unilever, the consumer group, to dismiss MAM, the UK's largest pension fund manager, from a £1bn ($1.67bn) portfolio because of poor performance.

The group awarded a third of its total £4bn fund to Barclays Global Investors, an index-tracking specialist. It was the first time Unilever had awarded money to a passive manager since outsourcing its pension fund management 11 years ago.

Unilever's decision followed that of Zeneca, the pharmaceuticals group, to reorganise its £2bn fund. The group reduced the amount managed by MAM, PDFM and Schroders in balanced mandates. It awarded some money to a passive manager but, significantly, also wants to appoint more specialist managers to run different asset classes.

Roger Urwin, head of investment at Watson Wyatt, which advises most of the UK's largest pension funds, believes the "Zeneca experiment" could be important for the industry. He has been influential in changing the mood of the sector after publicising the consultancy's support for a mix of index tracking, balanced and specialist management. Watson had been closely associated with support for balanced management.

Poor performance has highlighted the power of large managers. Ray Martin, head of pensions at Zeneca, said the reorganisation was partly prompted by a realisation that overall performance had been saved by his team's own decisions on asset allocation.

The two companies which have suffered the worst and longest performance problems – PDFM and Gartmore – have been hit by a decision to hold a large proportion of assets in cash. As asset allocation is a key component of balanced management, this failure has called the system into question.

However, while performance has provided the most headline-grabbing reason for recent change, government action has been the most fundamental cause. The Pensions Act, only a year old, has made pension funds reassess the way their assets are managed.

The minimum funding requirement, a central feature of the Act, insists that funds exactly match their assets with their liabilities, or the money needed to pay future pensioners.

As the liabilities are based on the movement of key indices, the change has served to increase the attraction of index funds for trustees.

Nobody is suggesting that balanced management will not continue to play a large part. Supporters of the UK system point to the experience of the US, where a dependence on specialisation has started to reverse, partly because of lack of effectiveness and the burden of extra administration.

Returns highest for five years

UK pension funds made their highest average return for more than five years – 11 per cent – in the first quarter of this year, Jonathan Guthrie writes. This compared with a loss of just over 1 per cent in the last quarter of 1997, according to WM, the performance measurement company. WM warned yesterday that returns were unlikely to be as good in the remaining quarters of this year. They have so far been below 2 per cent in the current quarter.

New warning on inflation

By Richard Adams and Christopher Brown-Humes

Inflation in the UK will continue to rise unless wage pressures and domestic consumption are kept under control, Mervyn King, chief economist at the Bank of England, the UK central bank, said yesterday.

Mr King told a business conference that the short-term outlook for inflation was "extraordinarily benign" thanks to a combination of the strong pound and lower commodity prices. But he warned that domestically generated inflation was significantly higher than official figures suggested.

Mr King, who is about to become a deputy governor at the Bank, is a member of its monetary policy committee, which is required by the government to set interest rates to keep annual retail price inflation at 2.5 per cent, excluding mortgage costs.

"As the one-off effects of the rise in sterling wear off over the course of the next year or so – as indeed they will unless sterling appreciates further – inflation will start to rise above the target unless domestically generated inflation declines," he said. There was "a risk" that domestic consumption remained strong, in spite of a weakening economy.

Mr King is regarded as one of the more hawkish members of the MPC, regularly in a minority voting for tighter monetary policy. But Mr King said using labels like "hawks" or "doves" was seriously misleading: "Over a five-year period, since each member of the MPC is trying to hit the same inflation target, I predict that it will be impossible to distinguish between doves and hawks."

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PROFILE HENRY SCHACHT, LUCENT TECHNOLOGIES

A corporate seer extolling the merits of globalisation

Tony Walker on the former chief executive who found there is life after running a big corporation

Henry Schacht's business card describes his new role at Lucent Technologies, the high-flying manufacturer of telecommunications equipment, as "senior adviser". Yet the title hardly does justice to his emergence as something of a corporate sage.

Mr Schacht recently stepped down as chief executive and chairman of Lucent, but at 63 he has no intention of heading for the country club. Rather, he plans to devote his efforts to new projects for Lucent, directorships with top American companies and to charitable causes.

He is also much in demand for his views on corporate responsibility, on the role of US companies abroad and on appropriate behaviour for chief executive officers who are reaching the end of their tenure. Having stepped down twice as chief executive – from Cummins Engine in 1994 and Lucent in 1997 – Mr Schacht can claim special experience.

"Too many people get cold feet as retirement day approaches and stay a bit too long," he says. "They neglect to devote sufficient effort to managing the process of extrication."

In the case of both Cummins and Lucent, Mr Schacht handed the reins to chief operating officers, or understudies, with whom he had worked closely. This preoccupation with orderly transition, a clearing of the decks, perhaps owes something to his early experience in the US Navy where he served as an adviser in Vietnam in the 1950s.

But he also believes that there is life after running a big corporation, including a company such as Lucent, which has grown strongly since it was spun-off in 1996 by AT&T. Lucent, which is currently riding the internet wave, has seen its share price more than double in the past year.

If the company's spectacular performance tempted Mr Schacht to keep a grasp on the reins, he quickly put the idea aside, he explains, because by the end of the second year he had achieved his objectives: he had launched the company and put in place the strategy and personnel to enable it to expand its operations.

But as a director of Lucent and senior adviser for new projects, he remains closely in touch. On the day of our interview, conducted in Lucent's New York offices with their panoramic views towards New Jersey where the company's manufacturing facilities are located, Mr Schacht was monitoring the effect on the share price of the acquisition of a smaller telecommunications equipment manufacturer.

'Too many people get cold feet as retirement day approaches and stay a bit too long'

He is also responsible for helping to form a venture capital company, following, one suspects, the General Electric model, to look specifically for opportunities in Russia and India. Lucent is already involved in China where it has some half dozen ventures under way.

Mr Schacht, who as chief executive for more than 20 years at Cummins pushed the manufacturer of diesel engines into several China ventures, is a great believer in globalisation.

"You are not going to be able to live in a world where the standard of living in one part is so different from the standard of living in another part, especially now that people are so aware of what everybody is able to do," he says.

"The real issue is: can we use this great mass of talent that we've put together to lift the standard of those less well-off without destroying our own standard of living?"

Mr Schacht, in this respect, might be regarded as the antithesis in US corporate culture of Al Dunlap, the chairman of Sunbeam, the domestic appliances company, whose "slash and burn" management methods have brought him notoriety. Mr Schacht and Mr Dunlap often find themselves on opposing sides in discussion about corporate responsibility.

Mr Schacht, who in addition to his position at Lucent holds directorships of Chase Manhattan, Johnson & Johnson, Alcoa and Cummins, also has firm views about the role of directors and their relations with the companies on whose boards they serve.

In his years as a chief executive he looked for directors who had the requisite experience and wisdom and also the "time and energy" to devote to the task. But experience also dictated that he find people who were relatively busy, rather than those with time on their hands.

"It's the age-old adage," he says. "Ask a busy person if you want to get something done."

In his "second retirement" Mr Schacht could not be said to be spending his time idly. In addition to his corporate responsibilities, he is chairman of the board of trustees of the Ford Foundation, a prominent member of The Business Council, a member of the Council on Foreign Relations and a trustee of the Metropolitan Museum, among other positions.

As to the possibility of him accepting another chief executive position, he says: "It is unlikely the opportunity will arise again, but I would never say never about anything."

Schacht: master of the orderly transition

TECHNOLOGY WORTH WATCHING

Research into stress may shed light on Gulf war syndrome

Research into the long-term effects of acute stress may shed light on Gulf war syndrome which has symptoms ranging from depression to joint pain.

Some believe the syndrome is stress related while others argue it is caused by exposure to toxic chemicals, including acetylcholinesterase (AChE) inhibitors used to protect Gulf war soldiers against nerve gas.

But both views may have more in common than is supposed, according to a report in Nature, the international science journal.

Researchers at the Hebrew University of Jerusalem have discovered that stress and AChE inhibitors affect the same biochemical pathway, leading to the same, potentially damaging, long-term neurological changes. This raises the possibility that the combined effect of AChE inhibitors and stress may be particularly damaging. The research also provides an insight into why attempts to use AChE inhibitors to treat Alzheimer's disease may have been disappointing.
Hebrew University of Jerusalem: Israel, tel 97226585109; fax 97226520258.

Environmentally friendly fungicides

Research by the Scottish Agricultural College may lead to an environmentally friendly alternative to fungicides.

The work centres on "film-forming polymers" which form a barrier on the surface of the leaf. They are used in agriculture and horticulture to reduce water loss from plants and improve the effectiveness of agrochemicals. These polymers were thought to be biologically inactive. However, SAC scientists found that certain of the polymers were effective against fungal diseases.
SAC: UK, tel 131 5354185; fax 131 5354334.

Myriad ways to chemical synthesis

High-throughput screening (HTS) has done wonders for the productivity of pharmaceutical research. The latest HTS systems can test 100,000 chemical compounds a day for signs of biological activity against a chosen target such as an enzyme, *writes Clive Cookson.*

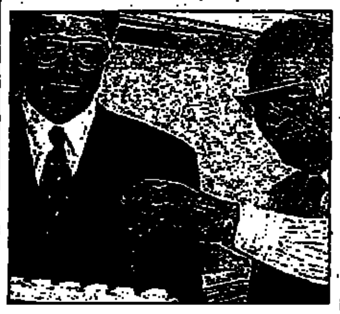
But their voracious appetite for drug candidates to test is exhausting "chemical libraries" and putting pressure on chemists to synthesise new compounds.

An average chemist, working manually, can create 30-100 compounds a year. So drug companies are investing in automated synthesis systems that can increase chemists' productivity more than 1,000-fold, by using robotics to mix, react, purify and analyse compounds.

The first model of the latest system, called Myriad, has been installed at the European research headquarters of SmithKline Beecham in Harlow, UK. Myriad was developed by The Technology Partnership, a research company near Cambridge, England, for seven pharmaceutical groups: SB and Chiroscience of the UK, Merck and Pfizer of the US, Novartis of Switzerland, BASF of Germany and Takeda of Japan.

Automated synthesis has concentrated on combinatorial chemistry, a technique in which a range of similar chemical building blocks are made to react in all possible combinations.

Combinatorial chemistry can produce libraries of new compounds but is restricted in the types of chemical reaction and building block that it can handle.



Testing, testing: Richard Gray of TTP (left) and Brian Warrington of SB

Myriad is more powerful and versatile than combinatorial chemistry, says Richard Gray who headed the Technology Partnership's development team.

Automating chemical synthesis will remove one bottleneck in the drug discovery process. But speeding up the later stages of pharmaceutical development, in which drug candidates are tested on patients, will be a more difficult challenge.
The Technology Partnership, UK: 1763 262626

Wired up to beat food poisoning

A thin metal wire that changes shape at different temperatures is set to become a weapon in the fight against food poisoning.

Researchers at Sandia National Laboratories in Albuquerque have used the wire, made of nickel and titanium, in a thaw indicator for food packaging. The indicator changes colour when its temperature rises above 0°C, the point where bacteria multiplies.

When the temperature rises and the wire changes shape, its movement tears a piece of coloured paper to reveal a different colour below. Even if the temperature cools again, the warning colour remains visible.

The sensor warns retailers and consumers about food damaged in transit and frozen food that has been thawed and refrozen.
Sandia National Laboratories: US, tel 5058457078; e-mail nsinger@sandia.gov

Walking crane to help at coal mines

A team of Australian scientists are developing a computerised walking crane, or "dragline", that is expected to be the largest industrial robot in the world.

The 75m tall robot is designed to carry 150 tonnes of blasted rock from open-cut coal mines and deliver it to the spoil pile.

It is designed to automate the most repetitive parts of the operation and is expected to reduce the strain on the operator and the equipment. Researchers hope that the robot will increase the productivity of the dragline by about 4 per cent, which would save the typical Australian coal mine A$3m (US$1.9) a year.

The robot is being developed by the Co-operative Research Centre for Mining Technology and Equipment and CSIRO Manufacturing Science and Technology.
CSIRO: Australia, tel 0732124501; jmr@brb.dmt.csiro.au

Vanessa Houlder

CINEMA

A real heiress in fancy dress

Martin Hoyle finds Henry James is given the full monty treatment in a less than satisfying new interpretation

Things may not fall apart in this week's releases but they certainly do not quite gel: plenty of promise, lack of fulfilment. *Washington Square*, for instance, is taken from the Henry James novella, well-cast with both young lions and established stars, and meticulous in period evocation. But the result is a fancy-dress parade, literate, intelligent and uninvolving.

To period feeling, director Agnieszka Holland (*The Secret Garden, Total Eclipse*) adds literary authenticity. She ignores *The Heiress*, the postwar stage and film adaptation of the same story. The tale depicts town mouse Catherine, plain and socially graceless, despised by her father, who turns the tables on the fortune-hunter who jilted her.

The Heiress had two cracking theatrical moments: when Catherine realises her intended eloper has abandoned her, and the final curtain when, an older (and richer) woman, she rejects the returned suitor with cold satisfaction. The new film ends with Catherine running a day school for picturesque moppets and sending away her old suitor with a flea in his ear.

The film begins with the camera giddyingly whirling around a household in turmoil as Catherine's beautiful mother dies in childbirth. It ends with Catherine at the piano *con amore* and con moppets. In between, it sacrifices some pretty chilling stage dialogue in favour of James's original. *Heiress*-fanciers remember her ageing father's reproach to the now hardened spinster, that she has become cruel. "I was taught by masters," is her cold reply: every actress worth her salt brings a prickle to the back of the audience's collective neck with that proud and bitter admission. Here we get the full Jamesian Monty in dialogue which carries far less impact.

Jennifer Jason Leigh's Catherine improves with self-knowledge, steeling both backbone and sense of purpose. Initially her tics, twitches and stumbles suggest the mentally retarded rather than the painfully insecure. She looks right, those demure corkscrew curls offsetting a firm Victorian jawline. Ben Chaplin's coarse-featured sensuality is *echt* pre-millennium, his fall from grace expressed by five o'clock shadow (rather than the book's ageing process); and he expresses intensity by bawling.

Maggie Smith is the meddlesome aunt, a scrawny old fowl fluttering her single chick into the jaws of the fox. Albert Finney (the original was Richardson) as Catherine's contemptuous father dithers between brutality and rueful tenderness. He looks like Donald Wolfit and sounds occasionally like W.C. Fields. Not a successful compromise.

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Alan Rudolph, a product of the Robert Altman stable, can coax brilliant performances from actresses; which makes *Afterglow* all the more puzzling. Briefly, it has the makings of a Feydeau farce or, in the blackness which underlies the characters' cross-purposes, a dark Ayckbourn exploration of sexual non-communication.

'I was taught by masters': Jennifer Jason Leigh and Albert Finney in 'Washington Square'

Frigidly self-absorbed, young high-flier Jeffrey is married to broody child-craving Marianne. Burly "Lucky" Mann is an odd-job Mr Fixit who satisfies his female clients with more than his spanner and plunger (the film indulges in the visual equivalent of many such single *entendres*). His unhappy ex-actress wife Phyllis pines for their vanished runaway daughter. Outraged spouses on the trail of their partners' latest infidelity are attracted to one another, neither realising the other's identity.

This gentle probing of pain, of fear of rejection and therefore commitment, goes off the rails with a final farcical brawl between the two husbands. Lara Flynn Boyle as yuppie wife is lost between kookie humour ("I'll take it; I'm ovulating," is how she decides to buy a flimsy garment for déshabille) and lonely pathos. Julie Christie is Phyllis: ageless, beautiful, mellow, but acting in a world of her own. Carry out the acid test: shut your eyes as you listen, and the lines come over as perfunctory, off-hand, mechanical. That casual, 1960s laid-back persona will not be shaken off.

Nick Nolte's Lucky, a craggy, open sensualist, is spot-on. Jonny Lee Miller from *Trainspotting* is surely the next British superstar. In an accent not just North American but perfect Canadian, he expresses the pain of self-aware emotional aridity, eyes peering out of the icy carapace like an appeal for help. He could – doubtless will – play Iago and walk away with the sympathy vote.

WASHINGTON SQUARE
Agnieszka Holland

AFTERGLOW
Alan Rudolph

DARK CITY
Alex Proyas

THE GENERAL
John Boorman

THE JAMES GANG
Mike Barker

*

If Rudolph, for all his visual stylishness, wastes the Montreal setting with its blend of sleek Americanness and old-world Europe, writer-director Alex Proyas goes to town with his perpetual urban nocturne, a vast series of studio sets evoking a city of dreadful night, in *Dark City*. Comic strip fantasy is garnished with references to *Metropolis* and *Nosferatu* in this story of an alien race dwelling beneath the city that plays with people's memories and identities, even changing the landscape every 24 hours.

Best viewed as superior hokum, the movie is a rattling good yarn that casts its own disturbing spell as Rufus Sewell's amnesiac fugitive from a murder charge belts down those mean streets after the truth. William Hurt's sympathetic cop has a disturbing look of the young Norman Tebbitt. Ian Richardson's chief alien an even more disturbing look of the old Norman Tebbitt. The effects are sumptuous the whole thing has the enjoyableness of a nightmare from which you have gratefully awoken.

The General won John Boorman the Director's Prize at Cannes. In brilliant black and white, it recounts the career of Martin Cahill, a Dublin criminal whose politically wished plague on both their houses (or rather, a strict adherence to free market principles) led to his murder by the IRA in 1994. For all Boorman's story-telling brilliance, there is something oddly flat in a film whose hero is devoid of self-doubts or questioning, who never changes or develops.

After nailing a gang-member to a pool table for alleged disloyalty, he concedes that the victim may be straight after all. They all bond like mad after this. There is no real feeling that armed hold-ups used real weapons; that breaking into a woman witness's bedroom at dead of night to put the fear of death into her is actually a death threat. There is a moral blankness here that leaves one finally indifferent, to Brendan Gleason in the title-role, even to Jon Voight, the imported star name, bringing a brooding presence and good Irish accent to an underwritten role.

The same ambivalence undermines *The James Gang*. This first feature from Mike Barker (ex-BBC TV) makes one look forward to the next, with a better script. Scots mum Bernardette (the excellent Helen McCrory) and her brood of infants take to crime like a junior-league Bonnie and Clyde plus a dash of Thelma and Louise.

Their intended lovableness is underlined by another grudgingly admiringly cop, the third this week, played by Toni Collette (*Muriel's Wedding*), looking and sounding out of place. The debt-collector's arson that drives the family from their flaming home is the sort that kills in real life.

And a film that wants us to take these waifs and bairns seriously should itself take their cheery induction into armed theft more seriously. The tacked-on happy ending is grotesquely unworthy.

Without the fire

THEATRE

IAN SHUTTLEWORTH

Two plays by Federico García Lorca
Battersea Arts Centre, London

Now that Battersea Arts Centre's future is financially assured, artistic director Tom Morris has programmed its three spaces thematically. While Studio One hosts seasons curated by the Red Room theatre, and Studio Two (most controversially) opts for "radio-theatre" in a Playing In The Dark strand, business continues as usual in the centre's main house. In this case, "as usual" means Absolute Theatre's competent but unexceptional productions of two plays by Lorca narrating the love of older men for younger, inconstant women.

The Shoemaker's Wonderful Wife (La zapatera prodigiosa), given what is apparently its British professional premiere, takes up the bulk of the evening (sadly and disconcertingly protracted on the press night by an interruption when a member of the audience fell seriously ill). With Jessica Worrall's *trompe-l'oeil* set and colour-coded characters, and Andrew Pratt directing the phalanx of outraged neighbours in a kind of clockwork flamenco, the visual and theatrical tone is suitably *Lorcista*: related to small-town Spanish life, but artificially heightened and a little mechanised.

Simon Wright and Sarah Jane Field wrangle and reconcile as the shoemaker and his teenage wife, as he flees her irksomeness and she subsequently discovers an undreamt-of depth of fidelity to his memory. Songs and chants punctuate the action, giving greater vent to the ever-present poetry even of Lorca's dramatic writing; accompaniment is supplied by a brace of musicians on guitars, pipe and – most wondrously – a cymbal played with a bow to produce a noise like shards of a satellite falling to earth.

A prologue spoken from beneath "the author's hat" (we know this because it says so on the chapeau in question) is heard without any of the laughs perhaps intended; a puppet-play towards the end effectively dramatises the couple's estrangement for them to see.

This is followed by the play rendered here as *How Don Perlimplin Adored Belisa and in his garden tried to please her*, which also inhabits the familiar territory of domestic tension, betrayal and ultimate sacrifice. Wright and Field return as the second mismatched couple, and Pratt directs even more mechanistically: actors move, to the sound of the bowed cymbal, from tableau to tableau to deliver their lines, never admitting the slightest natural movement.

John Edmunds' translations occasionally fall limp – Belisa's response to Perlimplin's death is, "I had no idea he was such a complicated man". The productions are perfectly serviceable, but ultimately fail to glow with the green fire of the dramatist's poetical visions.

MUSIC GYORGY LIGETI/MARKUS STENZ FAREWELL

Birthday bash finds wild expression

The South Bank series "Clocks and Clouds", a devoted survey of György Ligeti's music, has brightened many an evening since it began two Decembers ago. Last week it wound up with two Philharmonia concerts under Esa-Pekka Salonen and a recital by the Arditti Quartet, just in time for Ligeti's 75th birthday today.

The Arditti were superb, as expected, in Ligeti's two quartets – though the earlier one (composed while he was still in Hungary, where none of his serious music got performances) has not worn well. Yes, it still *sounds* like Ligeti (and almost as much like Bartók); but now it seems a sedulous compendium of all the early-1950s avant-garde hoops that a scrap of Bartokian material could be put through.

The radically ingenious Second Quartet (1968) is proper, mature Ligeti, expressive without recourse to any "expressive" routine. In his crackling piano concerto of 20 years later, Roland Pöntinen was bright-fingered and tireless, Salonen sharp and precise: an ideal performance of this athletically witty piece.

The next night, Emmanuel Pahud and Heinz Holliger did as much for the wildly original flute-and-oboe Double Concerto from 1972. From Ligeti's opera *Le Grand Macabre*, Sibylle Ehlert repeated the Police Chief's mad coloratura-to-bass oration to startling and wonderful effect, and was cheered to the roof.

Ligeti probably got most of the rehearsal-time – or else Salonen doesn't know Debussy very well yet; or possibly both. He was loud and efficient, with an almost parade-ground beat in *La Mer*. Sometimes even the main tunes were submerged beneath the raucous surface, and it is hard to do much with nuances if the orchestra rarely sinks below *mezzo-forte*. The previous night, some of his under-tempo *Ibéria* had been a little softer, but it drooped with languid *rubati* (for all the noise he whipped up at the end) – and yet he left any number of semi-precious stones in the score unturned, under-lit, unnoticed.

Same with Ravel's shimmering orchestra for his *Shéhérazade* songs: Monica Groop's lovely, liquid mezzo had to be paced carefully through all Salonen's droops. Can he possibly think that to be "period style"? In not one of those enchanting songs were we allowed to appreciate the delicate, unyielding line that runs through each. Stravinsky, however, is meat and drink to Salonen, and he made a lusty meal of *Petrushka*.

*

The night before the Ligeti began, Markus Stenz conducted his official farewell concert with the London Sinfonietta. His four-year tenure as principal conductor has been consistently rewarding. But we shan't miss him gravely; despite his new post at the Melbourne Symphony, he is expected to return often.

The programme was his personal choice. A lovely performance of Oliver Knussen's *Songs Without Voices* preceded three works *with* voices, by Mark-Anthony Turnage, Wolfgang Rihm and the Euro-Australian Brett Dean. Rihm is an abrasive known quantity, like him or leave him, and Rosemary Hardy sang his *Abschiedsstücke* with great art.

Dean's new *Carlo*, for strings, electronic sampler and a taped chorus, is a dramatic fantasy on the 16th-century composer Gesualdo's dismaying life. (Between madrigals he murdered his wife and her lover, but was Prince enough – of Venosa, a small place – to get away with it.) *Carlo* struck me as sober, honest music-spinning for essentially theatrical ends: musically it was nothing special.

Since Turnage's *Twice Through the Heart* had its Aldeburgh premiere two years ago, it is swiftly going everywhere. Three leading mezzos here have already taken on its dramatic solo role, a woman whose husband has driven her to murder. Stenz had a fourth, Sarah Connolly, fresh from her triumphant "hero" in Handel's *Xerxes* at the ENO. It was bracing to hear her so true and easy in Turnage's more jagged vocal lines, so heartfelt and artfully plain. Stenz is good at that, too.

David Murray

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Siegfried: by Wagner. New production conducted by Hartmut Haenchen in a staging by Pierre Audi; Jun 1

BALTIMORE

EXHIBITION
Walters Art Gallery
Tel: 1-410-547 9000
Monet: Paintings of Giverny from the Musée Marmottan. 22 paintings of the artist's garden, shown alongside photomurals and works from the Walters' collection; to May 31

BARCELONA

EXHIBITION
Museu Picasso
Tel: 34-3-319 6310
Egon Schiele: The Leopold Collection. 152 paintings and drawings from the period 1905-1918, on loan from the world's largest private collection of Schiele's work; to May 31

BERLIN

CONCERTS
Konzerthaus
Tel: 49-30-203090
Rundfunk-Sinfonieorchester Berlin: conducted by Alan Gilbert in works by Karmon, Mozart and Copland, with clarinet soloist Sharon Kam; Jun 3

Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Bernard Haitink in works by Schubert and Shostakovich. With soloist Matthias Goerne; May 29, 30, 31

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in a concert performance of Fidelio. With the Chicago Symphony Chorus; May 28, 31
● Chicago Symphony Orchestra: conducted by Daniel Barenboim in Beethoven's Symphonies Nos. 6 and 7; May 29, 30

EXHIBITION
Museum of Contemporary Art
Tel: 1-312-280 2660
Cindy Sherman: retrospective tracing the New York-based artist's development from the 1970s to the present. Consisting of 156 works, this show presents selections from each of her major series, including Untitled Film Stills (1977-80), Centrefolds (1981) and Fairy Tales (1985); to May 31, then touring

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
● Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola; May 28, 30
● Wozzeck: by Berg. New production by William Friedkin, conducted by Zubin Mehta; Teatro Comunale; May 29; Jun 1, 3

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; May 28; Jun 3

GLYNDEBOURNE

OPERA
Glyndebourne Festival Opera
Tel: 44-1273-815 000
● Cosi Fan Tutte: by Mozart. New production by Graham Vick, conducted by Andrew Davis. Cast includes Alan Opie and Barbara Frittoli. With the London Philharmonic Orchestra; May 30; Jun 1
● Katya Kabanova: by Janáček. Revival of Nikolaus Lehnhoff's production, conducted by Yakov Kreizberg, with designs by Tobias Hoheisel. Cast includes Amanda Roocroft. With the London Philharmonic Orchestra; May 29, 31; Jun 3

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
● Siegfried: by Wagner. Conductor Leif Segerstam, director Götz Friedrich and designer Gottfried Pilz continue their collaboration on the Ring with this new production. The title role is sung by Stig Andersen; May 29; Jun 2
● The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg; May 28

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: André Previn conducts a programme of works by Copland, Previn and Schumann; May 31

Royal Festival Hall
Tel: 44-171-960 4242
Vienna Philharmonic Orchestra: conducted by Riccardo Muti in works by Brahms and Stravinsky; May 28

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Henry Moore and the National Gallery: this celebration of the centenary of Moore's birth consists in a selection of his favourites among the Gallery's holdings; to May 31

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
London Classical Players: conducted by Roger Norrington in works by Haydn and Mozart. With violin soloist Thomas Zehetmair and viola soloist Ruth Killius; May 28

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: world premiere of Del Tredici's The Spider and the Fly, for Vocalists and Orchestra, conducted by Kurt Masur. The programme is completed by works by Copland, Vivaldi, Weber and Ravel; May 28, 30

EXHIBITIONS
Guggenheim Museum
Tel: 1-212-423 3500
www.guggenheim.org
China – 5,000 Years: major exhibition of traditional Chinese art. Highlights include Neolithic jades, Shang and Zhou bronzes, tomb ceramics, and a collection of Buddhist stone sculptures; to Jun 3, then transferring to Bilbao

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
Paul Strand, Circa 1916: comprising 50 rare prints tracing the photographer's transition from a soft-focus style to a bold, American modernism; to May 31

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Sylvain Cambreling in works by Boulez and Messiaen. With soprano Françoise Pollet; Jun 3

Théâtre des Champs Elysées
Tel: 33-1-49525050
Orchestre National de France: conducted by Yuri Temirkanov in works by Rimski-Korsakov, Rachmaninov and Elgar. With piano soloist Yefim Bronfman; May 28

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
www.Musee-Orsay.fr
Exhibition examining the relationship of artists to the revolutionary movement of 1848, and the influence of the Republic upon artistic life between 1848 and 1952; to May 31

PRAGUE

CONCERTS
Dvorak Hall
Midori: recital by the violinist of works by Beethoven, Brahms, Szymanowski and Saint-Saëns. With pianist Robert McDonald; May 28

Smetana Hall
Kathleen Battle: recital by the soprano of works by Handel, Wolf, Faure, Rossini and Turina. Accompanied by pianist Roger Vignoles; May 28

TOKYO

CONCERTS
Suntory Hall
Tel: 81-3-3584 9999
● Tokyo City Philharmonic: conducted by Taijiro Iimori in works by Schumann and Bruckner; May 28
● Tokyo Metropolitan Symphony Orchestra: conducted by Naohira Totsuka in works by Beethoven. With piano soloist Hiroko Nakamura; May 30

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

SAMUEL BRITTAN
ECONOMIC VIEWPOINT

Hot air expelled

Much of what passes for wisdom in public utterances about subjects like globalisation is verbiage – or worse

It must have occurred to many readers that much of what is said about the threat to jobs from globalisation is really hot air. After all, much of it emanates from the US – a country that has been more successful in maintaining high employment levels than most others.

The well-known American economist, Paul Krugman believes that it is not merely hot air but downright wrong. My own favourite term for such utterances is *lumpeneconomics* – a third rate substitute for the genuine article, preached by politicians and diplomats and business statesmen.

Many economists try to interpret the statements of such people in a charitable way, looking for nuggets of sense in what they say. Paul Krugman however has steadfastly refused to do this. In a new book of short reprinted articles* he demolishes many of the vulgar fallacies that pass for wisdom in speeches and weighty tomes.

He starts off in fine style against the "lump of labour fallacy" – the view that there is only a certain number of jobs. It is impossible to go to any meeting – for instance on the UK government's welfare-to-work programme – without someone seeking to bog down the discussion with the age-old query "Where will the new jobs come from?" Yet the whole idea that capitalism suffers from being too productive – which you can hear in any bar room discussion – suffers from a simple failure to think matters through.

Suppose the output of each hot dog maker were to double. Would there be a large increase in unemployment? Of course not. Not even if production not only of hot dogs, but of everything else were also to double. Total income would double, too, so why should not consumption double?

There are such things as slumps, but these have little to do with technology or globalisation and can usually be cured by issuing more money – "full stop, end of story". To arrive at these conclusions you do not need to collect thousands of facts to impress people by your erudition. The main requirement is a simple thought experiment – although the results of that experiment are confirmed by the history of the world.

Perhaps Krugman is needlessly provocative when he says that the level of unemployment in the US over the next few years will be whatever Alan Greenspan, the US Fed chairman, wants it to be. One can see the value of this assertion in knocking down pseudo-profundities. But as Krugman himself explains in other places, Greenspan's ability to reduce unemployment is ultimately limited by the need to avoid an accelerating inflation, which no one believes would be good for jobs.

Krugman applies his underlying thinking to French unemployment, still more than 12 per cent. A French employer must pay workers well and supply generous benefits. As a result there is nice work if you can get it. This amounts to saying that people have been priced out of jobs.

In addition, an over-strict monetary and fiscal policy designed to meet the Maastricht conditions accounts, in Krugman's view, for 2 or 3 percentage points of the unemployment rate. But instead of tackling either element directly, even Philippe Séguin, the conservative leader, wants to increase jobs by banning self-service pumps at petrol stations.

Krugman will undoubtedly annoy some non-stupid readers by preferring a moderate non-runaway inflation of, say, 3 per cent to "stable prices". Recent evidence is on his side. But he seems to favour a modest *permanent* degree of inflation on the grounds that it then becomes easier to make reductions in pay brought about by market conditions without anyone having to take a nominal pay cut. My own thought experiment suggests that the rigidity of nominal wage rates reflects half a century of inflation of varying degrees. If we had genuine long-term price stability – that is, a world in which yearlyprices were as likely to fall as to rise – – labour market behaviour would eventually change too.

The worst chapter in the book, "The Tequila Effect", is in praise of President Bill Clinton's rescue operation of Mexico after the 1994 currency crisis. But such weaknesses are more than redeemed when Krugman hits on the head some of the shibboleths of contemporary discussion.

For instance, he dismisses the "information economy" dominated by information technology. The billions of families in the developing world that are beginning to have some purchasing power do not want pretty graphics on the internet but houses, cars and meat. He predicts that payoffs to higher education will erode as academic credentials will have less and less monetary value. Jobs such as nursing, carpentry or household maintenance will pay more than people can expect to earn with a PhD.

Inevitably, however, the greatest immediate interest will be found in Krugman's chapter "What is Wrong with Japan?" The immediate problem is not too little supply but too little demand. Answer: "PRINT LOTS OF MONEY."

How can the Bank of Japan do so when nominal interest rates are already around ½ per cent? By buying up Japanese government securities, thus increasing bank reserves plus cash in circulation. This might stimulate spending directly, for example by putting cash into people's pockets; or make banks, awash with reserves, willing to lend.

Some people will be comforted by the fact that an economist of a different political persuasion, Milton Friedman, has come out with an almost identical prescription. Judging by the greatly stepped up acquisition of assets by the Bank of Japan there are signs that such advice is quietly being followed. But stimulatory action has not gone on far enough or long enough to affect the annual growth of the broad money supply which more directly affects domestic spending.

Others are already reacting in horror at the "monetisation of the national debt". It may be true that Japan's problems partly originate in excessive monetary ease in the 1980s, which stimulated the bubble economy.

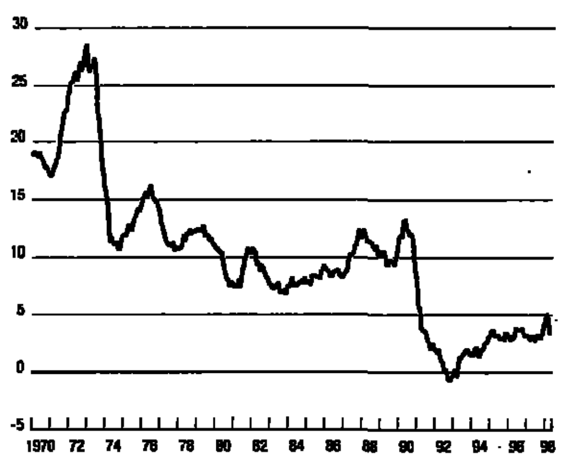
But to use that argument against monetary stimulation today is like refusing to put on a warm coat on an ice-cold day because we will feel too hot when the sun comes out. Before then, we may die of exposure.

A somewhat more plausible argument is that Japanese consumers and business people will in their present mood simply use any extra cash to buy dollar assets, thus contributing further to the Wall Street boom without stimulating spending in Japan. Such a movement of funds, however, is helping to drive down the yen and make Japanese exports more profitable – thus stimulating the economy by a different route.

There is just one caveat. The balance between taking anti-slump action and the fear of future inflation from a cash-rich economy is one that the Japanese should choose themselves, and not to please US policymakers or academics. If after full analysis the Japanese want to risk a deflationary spiral, it is their affair.

The earlier overstimulation was partly at the behest of the US. It follows from the argument of Krugman and other US mainstream economists that the rest of the world could offset a deflationary stimulus from Japan by sufficiently expansionary policies of its own.

Japanese broad money
Annual % change



Source: Datastream/ICV

**The Accidental Theorist. WW Norton, £16.95.*

samuel.brittan@ft.com

LETTERS TO THE EDITOR

Genetics code an emotive issue for informed debate, not referendum

From Mr Simon Cohen.

Sir, William Hall's article ("Genetic code of conduct", May 23-24), reporting the world's first state poll on genetic engineering in Switzerland, raises important ethical and legal dilemmas.

Decisions about genetic research cannot be deferred to the population at large. This is an emotive issue that does not lend itself to a decision by a referendum. Too much depends on how the questions to be voted on are framed and the tenor of the debate leading up to the referendum. It is a decision that can only be made after the fullest and most informed of debates. It is for governments to decide after comprehensive consultation with industry, academia and religious leaders. Such a consultation procedure is already in place in the European Union.

The European parliament recently voted in favour of the biotechnology directive which gives the green light to a wide range of genetic research, confirming that transgenic animals *are* patentable. Legislation already exists in Europe to regulate genetic research, which is constantly monitored by various bodies comprising experts in science and technology as well as ethics. Indeed, there already exists the European Group on Ethics in Science and New Technologies to monitor progress in this sphere.

If Switzerland votes for a ban it will merely alienate them from their European neighbours and a lot of Swiss genetic research (and investment) will be moved to more genetically friendly countries.

Simon Cohen,
patent lawyer,
Taylor Joynson Garrett,
Carmelite,
50 Victoria Embankment,
London EC4Y 0DX, UK

Russia needs a rest from 'shock therapy'

From Mr Harry Shutt.

Sir, It is astounding to read the claim in your leader, "Russia's dilemma" (May 20), that "the impact of high interest rates on Russia's undeveloped market economy is not that large". How could one suppose that these rates (at least 40 per cent in real terms) have nothing to do with the huge levels of inter-firm debt that are paralysing the enterprise sector and intensifying de facto mass insolvency, not to mention the growing threat to civil order posed by justly incensed unpaid workers? Or that this paralysis is not a significant cause of the fiscal deficit which is weakening the currency, particularly as more and more businesses are forced into barter and parallel market trading in order to survive, thus reducing the tax base even further?

Instead of continuing to support the economic theorists who foisted the inherently unworkable strategy of "shock therapy" on Russia and the rest of the former Soviet Union it is surely time for the FT to take the lead in calling for a period of tight control of capital movement and currency trading in these shattered economies, thus avoiding the need for such crippling interest rates to achieve monetary stability. If practical proof were needed of this obvious truth it is surely provided by the contrasting case of China, where the maintenance of effective control of the currency has been a key factor in sustaining high growth rates over the past 20 years.

Harry Shutt,
economic consultant,
19 Tennyson Close,
Horsham,
West Sussex RH12 5PN, UK

Arab pressure not behind flight from Palestine

From Mr Owen Simon.

Sir, The facts about the Arab flight from Palestine in 1948 used by Sam Goldman (Letters, May 22) are wrong and have been disputed by Jewish historians of Israel in recent years. Most of the Palestinians who were dispossessed of their land and homes as a result of the creation of the State of Israel in 1948, fled as a direct result of intimidation, violence and sometimes mass murder, as in the case of the appalling massacre of the inhabitants of the village of Deir Yassin near Jerusalem, by the armed forces of Israel.

Only a minority fled in response to Arab pressure but it has suited the Israeli government and those sympathetic to it to argue otherwise. Like the mythical mass suicide of the Zealots at Masada, now also found by Jewish historians to have been an invention of history, the myth of the Arab flight from Palestine in 1948 is an example of the corruption of history and fabrication of myth to serve political ends.

Owen Simon,
106 Elborough Street,
London SW18 5DL, UK

Number One Southwark Bridge, London SE1 9HL

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A swansong performer

Last year, the Philippines surprised many people by avoiding Asia's contagious crisis. **Justin Marozzi** asks whether it can this time as well, under a new president

Asked what would be his first act as president of the Philippines on June 30, Joseph "Erap" Estrada said he would offer a prayer to God. Many investors will be doing exactly the same.

As a successor to the highly regarded Fidel Ramos, Mr Estrada could hardly be more different. While Mr Ramos was a long-serving military officer, former defence secretary and architect of the Philippines' economic recovery since 1992, Mr Estrada is one of the world's more colourful politicians, a former movie star-turned-populist vice-president with a penchant for womanising, hard drinking and gambling.

Sound economic management is not considered his forte – a worrying perception at a time when many Asian economies are suffered a renewed and virulent outbreak of trouble.

But the differences between the two men may be misleading. By delivering an impressive economic turnround, the Ramos reforms have ushered in a consensus among political leaders to avoid policy reversals. Falling output in the early 1990s was reversed and the economy grew 5.1 per cent last year, despite problems elsewhere in Asia. This was a remarkable performance for a country traditionally among the worst performers in the region.

To emphasise continuity, Mr Estrada has reiterated his commitment to Mr Ramos's free market orthodoxy. The tone of his administration will differ – the government's focus will shift towards the beleaguered agricultural sector, which has long dragged down national growth and kept more than a third of the population below the poverty line – but most expect reform to continue, albeit more slowly.

All the same, good policy is not just a matter of advice. The people with influence matter a lot, too. And a recurrent concern in the Philippines is the potential for a return to crony capitalism, the economically destructive hallmark of Ferdinand Marcos, the late president. As Indonesia has vividly shown, this is a problem that can bring a government down.

Colourful politician: Mr Estrada celebrates victory in Manila AP

Eduardo Cojuangco, a close business associate of Marcos and a key financial backer of Mr Estrada, is expected to receive more sympathetic treatment from the new administration. He has a long-running ownership dispute with the government over a 48 per cent stake in San Miguel, the food and beverage group capitalised at $2.9bn.

Mr Estrada says he will abolish the Presidential Commission on Good Government (PCGG), established in 1986 by former president Corazon Aquino to recover assets – such as Mr Cojuangco's – believed to have been illegally acquired during the Marcos era. It is not clear how such ownership disputes would be resolved.

Dismantling the PCGG, which many believe has failed to fulfil its brief, arouses mixed feelings. "We want to exorcise the ghost of Marcos but if we don't learn the lessons from that period we're doomed to make the same mistakes again," says Romeo Bernardo, former undersecretary of finance.

'We want to exorcise the ghost of Marcos but if we don't learn the lessons from that period we're doomed to make the same mistakes'

Lucio Tan, the Chinese-Filipino tycoon whose rise to become probably the richest man in the country was closely associated with the Marcos regime, is another supporter of Mr Estrada. A bête noire of the Ramos administration, he has a 26bn pesos (£412m) tax evasion investigation hanging over him. Meanwhile, Imelda Marcos, the former first lady who also backed Mr Estrada's presidential bid, is thought unlikely to be sent to prison in spite of a recent Supreme Court ruling. As one European businessman puts it: "It's a return of the Marcos cronies."

But the re-emergence of Marcos-era figures belies the fact that six years after Mr Ramos came to power the business landscape has changed considerably. Monopolies have been dismantled in telecommunications, civil aviation, shipping, water and power. Banking has been opened to foreign competition and the oil industry was deregulated last year. These reforms go a long way towards explaining why the Philippines has been comparitively little damaged by the regional crisis.

"Many of the things we're recommending in Vietnam, Indonesia and Thailand are already in place here," says Vinay Bhargava, head of the World Bank in the Manila. "The Philippines is near the top of the development curve in East Asia in its liberalised and competitive policy environment. The economy is well on its way to global integration."

The Asian crisis has also refocused attention on the value of democracy. Whatever the carnival-like excesses of one of the world's more exuberant democracies, it is a stark contrast to the political crisis exploding in neighbouring Indonesia. "We may have elected a clown to be our president, but at least we don't have dead students on the streets," says a local businessman.

Mr Estrada is likely to be a more hands-off president than Mr Ramos. Much decision-making will devolve to the cabinet, which is why in the weeks leading up to Mr Estrada's inauguration, businessmen have been closely scrutinising every appointment. Initial signs are generally encouraging. The likely executive secretary and the probable finance secretary are both considered safe pairs of hands. The central bank governor says he will remain in office for a while. So will the foreign secretary.

What unsettles observers, however, is the danger that Mr Estrada will be unable to impose policy coherence on a fractious cabinet (Mrs Aquino failed on this count). The potential for division is real enough. Mr Estrada's advisers run the political gamut from former communists such as Horacio Morales, the next secretary of agrarian reform, to free-market zealots.

If he can control them, however, Mr Estrada would have the chance to confound the doomsday predictions of his critics and lead the Philippines to sustainable growth. And if he does that, the Estrada presidency really will be, as he puts it "the last great performance of my career".

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Thursday May 28 1998

Russia's rouble crisis

Having staved off two attacks on the rouble in the past eight months, Russia now faces an even greater challenge. The rouble yesterday came under its most serious pressure yet, prompting a rise in interest rates to 150 per cent. Whether Russia survives this crisis depends on whether Boris Yeltsin, the president, can accept his role in bringing it about – and credibly commit to real reform.

The root of the problem is Russia's public finances, which have been in an unhealthy state for some time. This has increasingly led investors to withdraw, putting pressure on the rouble and leaving the Russian authorities no choice but to raise interest rates. But they are caught in a vicious circle. Each interest rate rise increases their debt service payments and further worsens the public finances.

Recent events have brought the situation to a head. Mr Yeltsin's decision to sack his cabinet left foreign investors feeling nervous. The failure of the Russian government to pay public sector wages then led to a costly blockage of key railway lines by striking miners. And the collapse on Wednesday of the Rosneft privatisation was the last straw. Not only was it meant to be a showcase privatisation but the revenues it would have raised were crucial to the public finances.

The situation is now fragile. But a devaluation must be avoided if at all possible. The exchange rate anchor has delivered some stability to the Russian economy and is the only credible monetary target. And the rouble is not overvalued. A forced devaluation would be extremely destabilising for the Russian economy – and could have serious knock-on effects for other vulnerable currencies, particularly in eastern Europe.

Russia's problems have sprung from a government too weak to impose the necessary reforms. Mr Yeltsin must now show strong leadership. First, he must avoid the temptation to use Sergei Kiriyenko, his new prime minister, as a scapegoat. Second, he must accept that the public finances are at the heart of this crisis – Asian contagion is no longer a factor.

The International Monetary Fund, now in Moscow, also has a critical role to play. It is due to release a tranche of Russia's IMF programme and is under pressure to grant an emergency rescue package. It could be reluctant to do so, as Russia's promises of tax reform have been too slow in coming and so far unmatched by action.

But, with the support of world leaders, the IMF could use this crisis as an opportunity to impose stricter conditionality on Russia and to demand greater involvement in its attempts to reform its public finances. Mr Yeltsin must swallow this medicine if he hopes to escape the crisis without lasting damage.

Euro-banks

There are good reasons for European banking mergers and bad ones. Unfortunately, the battle between ABN Amro and Fortis for Belgium's Générale de Banque seems likely to unleash a flood of deals of both kinds.

Good mergers are those driven by the desire to make assets work harder, or to escape from the trap of a small domestic market. Bad mergers are those where the principal motive is size – of assets or of market capitalisation – or a spurious desire to achieve pan-European status in a hurry.

In the Générale de Banque case, both bidders can be absolved of the worst of these faults, though neither is entirely free from criticism. Fortis represents one of the *bancassurance* combinations whose long-term value to shareholders is still unproven. ABN Amro builds its case for the deal partly on revenue synergies that cannot be guaranteed.

Still, both have plausible strategic objectives in the deal. In particular, both of them acknowledge that the home market for a bank in Belgium or the Netherlands is now the Benelux region as a whole. That is a sensible step forward, akin to the consolidation at home and abroad practised by Switzerland's newly merged UBS.

What would be less desirable is a flood of mergers aimed at bulking up banks either in size or in European spread without obtaining serious cost savings or an integrated regional business.

Hastily assembled combines, to dominate national markets or achieve a notional parity with the newly merged American giants, are not the answer to European banking's problems. Similarly, bolting together banks in individual European countries to create a region-wide network – an approach which several banks are rumoured to be contemplating – is also likely to prove a mistake.

Technology apart, there are few economies of scale in commercial banking once a national network of branches is achieved. And though some of the value-added parts of banking – such as international corporate advisory work – do require a worldwide spread of resources, they bring diseconomies of scale along with them.

Europe's banks face substantial strategic challenges. The euro's likely impact on domestic business; the effect of telephone and internet transactions on the profitability of bricks-and-mortar branches; the emergence of a top tier in investment banking that most European banks cannot now hope to join. A clear strategy to address these issues is indeed likely to involve mergers; but mergers without the strategic answers merely compound the puzzle.

War in Kosovo

Kosovo has become the cockpit of another Balkan war. Sporadic clashes between the ethnic Albanian majority and its Serb overlords have developed into a full-scale struggle – exposing the failure of current international policy towards the issue.

Under US pressure, Serb leader Slobodan Milosevic agreed this month to talks between his representatives and moderate Albanian leaders. But the talking has done nothing to halt the fighting. There is an urgent need for a firmer and more consistent international response, starting with today's meeting of Nato foreign ministers in Luxembourg.

Most observers hold Mr Milosevic, who several years ago stripped Kosovo of its provincial autonomy within the republic of Serbia, to blame for the conflict. But one might conclude the opposite from the international community's actions. Even the US, which has taken the firmest rhetorical line against Mr Milosevic, has flip-flopped on sanctions. This month, the US and its European partners in the Contact Group first imposed an investment ban on Yugoslavia, then suspended it when the Kosovo talks started, and may now have to re-impose it.

By contrast, the Contact Group has insisted that the Kosovar Albanians should not strive for outright independence, which could destabilise neighbours like Macedonia. While publicly supporting the Albanians' demand for third party mediation, the Contact Group has privately pressed them into direct talks with Belgrade. The implication of this is that Kosovo should stay within Serbia as well as within Yugoslavia. The result has been to undermine the moderate ethnic Albanian leader, Ibrahim Rugova, in favour of the more radical Kosovo Liberation Army.

Even the dispatch of a Nato force to Albania itself – as requested by the Tirana government – now looks double-edged to Kosovo Albanians. Such a force might deter Serb incursions into Albania, but it might also stop arms reaching the KLA. It is now dawning on Nato that this could put it into the same invidious position as United Nations forces were in Bosnia: preventing the weaker side from defending itself while doing nothing to check the stronger side.

If Nato proceeds with such a policy, it could make matters worse than if it did nothing at all. In any case, the western allies may yet find themselves facing calls for full-scale intervention in Kosovo itself. Nato ministers would do well to begin honestly confronting the options today. Meanwhile, their governments should keep economic sanctions on Belgrade, and start to press for a ceasefire as well as talks.

China connection goes sour

Stephen Fidler and **James Kynge** look at the wider implications of the scandal in the US over technology exports to Beijing

The Clinton administration strongly denies the allegations but "Chinagate" – as it has predictably been dubbed – looks like it could turn into the most serious domestic political scandal to hit President Clinton so far.

It could overshadow a summit which ranks as the most important bilateral diplomatic event of the 1990s. And it could even damage one of the most important foreign policy relationships in the world by raising doubts first about whether "constructive engagement", the bedrock of US China policy, is really bearing fruit, and second, whether the Clinton administration's decision in 1994 to delink US trading concessions from China's human rights record has yielded any tangible advantages.

The story starts with an admission by Johnny Chung, a Chinese-American businessman who contributed $360,000 to Mr Clinton's re-election campaign, that $100,000 of the money came from the Chinese military, through an army officer who was an executive with China Aerospace Corp – a company belonging to China's People's Liberation Army. This suggests to some that China was seeking to using campaign contributions to influence US policy.

China Aerospace is connected with a US company called Loral Space and Communications whose chairman, Bernard Schwartz was the largest single donor to the 1996 Democratic party campaign. In February 1996, a rocket belonging to China Aerospace exploded on take-off, destroying a $200m satellite belonging to Loral. Two months later, the US company took part in a Chinese review of the crash which was looking for ways of avoiding other such disasters. In March 1997, the US Justice Department launched an investigation into allegations that Loral had done more – leaked satellite know-how to China, which would have breached export control laws and could have helped China with its missile-guidance system. Loral denies the charge.

All that was serious for the company, but did not necessarily involve the president. This February, however, even with the justice department's investigation still going on, Mr Clinton granted Loral permission to export new satellite technology to China.

The allegations have been leapt upon by the Republican majority in Congress, who had failed to find much public support for their campaigns against Mr Clinton over Whitewater and the White House intern Monica Lewinsky. Some legislators, including the House Speaker leader Newt Gingrich, have called on Mr Clinton to cancel next month's trip. They were backed by legislators worried that the US engagement with China is ignoring the crucial issue of human rights abuses there. Hence the domestic US embarrassment could coincide with the equally embarrassing possibility that a big summit which the White House believes is vital to US-China relations, could be damaged by Mr Clinton's domestic opposition.

The president said on Tuesday that to cancel the summit would be a mistake and that the US "partnership" with China had yielded results in stopping the transfer of missile technology to other countries. There had also been recent advances on the political and human rights fronts, he said. Senior officials led by the national Security Advisor, Sandy Berger, are expected to leave for China on Sunday to negotiate details of the trip.

Whatever comes from that, the scandal has re-opened the fierce debate in the US between supporters of "constructive engagement" with China (which the administration has strongly backed since 1994) and supporters of "containment".

For the constructive engagers, such as Nicholas Lardy, senior fellow at the Brookings Institution, the allegations represent "a tempest in a teapot". Mr Chung's claims have been made as he seeks a plea bargain over charges he funneled illegal contributions to the Democrats' campaign and must therefore be treated sceptically. (The donations were in any case paid back). Moreover, says Mr Lardy, the idea that in 1996 the US changed policy towards Chinese launches of US satellites is plain wrong. "The US has been approving satellite launches for a decade: none has ever been turned down," he says.

The "containers" argue that China is simply too authoritarian and too unreliable for the US administration to engage with safely. They claim that policy may have already have jeopardised US national security. And even short of that, says Thomas Duesterberg, senior fellow at the Hudson Institute in Washington, what China's government should not be taken at face value. This is true, he says, of trade, where despite an overall reduction of tariff levels by China, many other obstacles have been put in the way of US exports. "New rules are all too frequently created to offset the impact of liberalisation measures," he says.

All this argues, he says, not for an end to constructive engagement with China, but at least a more cautious approach to it.

The administration is likely to want to side with the constructive engagers such as Mr Lardy than with Mr Duesterberg and those like him in Congress.

For Mr Clinton, China has now become a key protagonist in most of Asia's security issues – and Asia's financial crisis and India's recent nuclear test have shown just how pivotal China is to US policy in Asia. China has been co-operating with the US in attempts to halt North Korea's nuclear programme, and its strong alliance with Pakistan makes it influential in the politics of the subcontinent. But its territorial ambitions make for friction, in particular its claims that Taiwan – which has military and unofficial political ties with the US – is part of its territory. It also has claims to territories in the South China Sea which are disputed by many of its south-east Asian neighbours and has longstanding territorial and strategic disputes with Japan, Washington's firmest Asian ally.

The Asian financial crisis has underlined China's growing importance in a different way. The Chinese refusal so far to devalue its currency in the face of devaluations elsewhere has been praised by the US as an important contribution to stability. A Chinese devaluation would risk another round of Asian currency turmoil that could do more damage to world growth – and to the US economy. In talks with US officials this week, Chinese officials have reiterated their determination not to devalue, but the decision may become tougher to sustain if a second phase of the Asia crisis looms – and if the yen weakens further.

For their part, China's leaders also have good reasons for wanting engagement with the US. Jiang Zemin, the president and part of a "new generation" of leaders to gain full prominence since the death of Deng Xiaoping last year, has regarded the improvement of US-China ties as the cornerstone of his strategy.

China's economy may need more help from the US than seemed necessary a couple of years ago. Asia's travails have reduced the flow of foreign investment into China – and trade with US, in which China runs a $50bn annual surplus, is even more important than it was to keep the Chinese economic engine going.

Hence, a successful Clinton summit would provide a critical endorsement for Mr Jiang's leadership at a time when the reforms he has pioneered have led to surging unemployment. Although leaders are not directly elected in China, public disillusionment has the potential to divide opinion among leaders and paralyse policymaking.

Friction over Mr Clinton's visit would deal a sharp blow to Mr Jiang's prestige. In the Chinese context he bent over backwards to show accommodation of US cultural attitudes and historical achievements during his summit there last year. His guitar playing, his banging the gong to start trading of the New York Stock Exchange and his liberal use of English during that trip amounted to a compliment to US opinion. But a snub from the Clinton administration – as it navigates its own domestic political minefields – would risk making Mr Jiang look foolish.

Where, then, does that leave the summit? The answer is in limbo. Despite the efforts and interests of both governments, the scandals have limited what the summit can achieve and have probably done considerable damage to hopes of a new momentum to constructive engagement.

The US side was initially pushing for China to make progress toward signing the Missile Technology Control Regime (MTCR), a key arms control treaty which seeks to limit the spread of missile technology. But diplomats said that India's nuclear tests this month have so jolted the region's strategic balance that Beijing may be reluctant to sign any arms control treaty at this time.

Progress on MTCR was being linked to US concessions on the vexed issue of Taiwan – specifically whether the US would sign a statement to reduce arms sales to the island which China regards as a renegade province. Such a statement may still be possible but its content may now be diluted.

That leaves one other big issue of substance: negotiations on China's accession to the World Trade Organisation. These have intensified, officials sas. But a genuine breakthrough is complicated by Beijing's reluctance to make market opening concessions until its financial institutions and corporations have had a chance to digest a current phase of destabilising economic reform. And on the US side, the annual debate in Washington over whether to grant China most-favoured nation status as a trading partner has been complicated by the campaign finance allegations. Indeed, the administration is seeking for that debate in Congress – originally scheduled for when Mr Clinton was in China – to be put back.

That could leave the summit mainly symbolic. It was suposed to show images of Chelsea Clinton watching a Chinese *Sesame Street*, or of the president visiting a village where elections had taken place, beaming a message of hope to the US. Instead, these may just be empty gestures, symbolic of the unresolved tension in the US between the difficulties of constructive engagement and the dangers of containment.

OBSERVER

Spinning out of control?

If Chancellor Helmut Kohl was looking for a government spokesmen who would throw his weight around, he certainly seems to have succeeded with the man he appointed this week.

Christian Democrat MP and former journalist Otto Hauser, 45, whose trademarks are Boss suits and Armani glasses, is a spin doctor in a hurry. There's a big opinion poll gap to close and just four months – including a parliamentary recess – until the general election.

So he got on with making waves at his first government press conference yesterday, wasting no time on the notion that official spokesmen should be above party politics. "I am a politician. I have political opinions," he told the unusually well-attended midweek briefing, and promptly put the boot into the opposition Social Democrats as spokesmen from various Bonn ministries rolled their eyes towards the heavens.

This tough spin-doctoring might just get Hauser into a tangle with Peter Hintze, the CDU's general secretary who is supposed to be in charge of party propaganda. And what will Andreas Fritzenkötter, the chancellor's own spokesman, make of his new rival? Or for that matter Matthias Wissmann, the transport minister who is also meant to be beefing up the CDU's economic message?

With so much spinning going on, there must be a danger of the CDU campaign flying off into orbit.

Holy unacceptable

India's nuclear scientists might wish they'd kept their isotopes to themselves. True, the nuclear tests have made them popular heroes – and prize catches on New Delhi's glittering social circuit – but years of messing about in lonely laboratories with test tubes and van der graaf generators isn't the best preparation for being mobbed wherever you go.

Apparently the pressure of admiring fans is so great that A.P.J. Abdul Kalam, the sprightly head of the Defence Research and Development Organisation, has given up his daily walks, and has been advised to keep away from cocktail parties altogether – maybe officials are worried about what kind of brews he might cook up.

As if that wasn't bad enough, the bleak Pokharan test site itself has become a star, and might even become a sacred shrine: members of the Vishwa Hindu Parishad, a religious group, want to build a temple there. Though the idea of sending a heap of Pokharan sand on a progress around India appears to have been dropped.

But the feelgood factor created by the tests is fast dissipating in New Delhi's 47 degree summer heat, where long power cuts are adding to the misery of water shortages. What's the point of exploding bombs under deserts, some are asking, if the lights, fans and air-conditioning don't work?

Tight Lippen

Maurice Lippens, Belgian co-chairman of Belgo-Dutch financial services group Fortis, was scrupulously polite about ABN Amro – which unsportingly trumped his bid for Générale de Banque this week – at yesterday's annual meeting.

But he couldn't resist a little dig after dwelling at length on the record profits growth at MeesPierson, the Dutch investment bank Fortis acquired in 1996. This was, said Lippens, in contrast to MeesPierson's "stable results" under its previous owner. Which was, of course, ABN Amro.

Tongue tied

Watch out if you're tempted to call the European Union's proposed withholding tax directive *un directive en vue de garantir un minimum d'imposition effective des revenus sous forme d'intérêts à l'intérieur de la Communauté* – as one Eurocrat did this week. Chrissie Maher is after you.

The founder of the Plain English Campaign, which has shaken up officialese in the UK, is in Brussels today to knock some sense into European Commission officials who never use one word when *trois* will do.

The redoubtable mother of four from Liverpool didn't learn to read or write till she was 14, but is now hacking away at the jargon jungle. She has been invited to Brussels by Fight the Fog, a campaign launched by English language translators in Brussels to stop Eurocrats calling a sheep a grain-consuming unit.

There's been some encouragement from the British presidency, and it's hoped the Austrians will follow suit when they take over in June. The Finns, who take the chair in January, say they're all for it – their plain-speaking commissioner Erkki Liikanen spoke at a Fight the Fog session earlier this month.

The key, apparently, is to Kiss – keep it short and simple

Listing to port

So much for the hopes of Iosco, the international securities regulators club, which yesterday proudly unveiled new disclosure standards on cross-border listings.

The watchdogs want companies seeking such listings to disclose every director's salary, stock options and benefits. So it was unfortunate that Iosco chose to set out its stall in Paris – such standards don't apply to French companies, let alone outsiders.

Michel Prada, head of the Commission des Operations de Bourse, the French member of Iosco, stressed that the guidelines allowed for cultural differences to be respected. But secretive Gallic bosses be warned. Prada said he – "personally" – would not oppose more transparency in future.

The Financial Times

100 years ago

The War Intensifies
Washington, 27th May. This morning there was a revival of the rumour that General Miles was about to start at once for Tampa, preparatory to the Invasion of Cuba. As a matter of fact, a special car for General Miles and his staff has been at the railway station for some days in readiness to start at a moment's notice. The Commander-in-Chief has for many days been anxious to start, and has only been restrained by the fact that the conditions are not yet ripe for a movement on Cuba. It can be stated on the best authority that General Miles himself has not yet decided when to begin the invasion of Cuba.

50 years ago

U.S. Commodities Price Trend
New York, May 27. Since the Treasury, disregarding the earnest advice of the Federal Reserve authorities and the strong hopes of the banks, announced in effect that there would be no tightening of short-money rates this summer in connection with its turnover of about $10,000 millions of June and July maturities, commodity markets have taken the inflationary hint with laudable calmness. In this they reacted conversely to Stock markets.

FINANCIAL TIMES

THURSDAY MAY 28 1998

THE LEX COLUMN

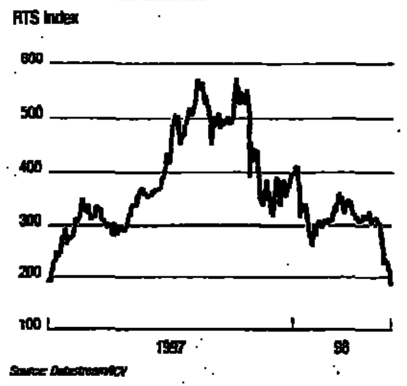
Rouble rescue

What a gamble! Raising interest rates to 150 per cent certainly demonstrates Boris Yeltsin's determination to support the rouble link to the dollar. But with inflation around 10 per cent, real interest rates are pip-squeakingly high. Unless rates *come down rapidly, the gamble will* backfire as soaring government debt-servicing costs wreck efforts to curb the budget deficit. And the damage to the economy should not be underestimated, even if debt financing is relatively limited in the early phases of the country's transition to a market economy. The 53 per cent fall in the Russian stock market since the start of the year is evidence enough of this.

Meanwhile, the temptation to borrow in foreign currencies at lower interest rates should be resisted. If Russia were to have to give up the fight to maintain the rouble's value, the linchpin of its stabilisation programme, the consequences of such borrowing could be horrific. Can the Asian crisis have been forgotten even before it is over?

Probably the best short-term fix is a quick and transparent sale of oil group Rosneft. *If finding bidders* means having to lower the asking price, so be it. Arguing the case for a rapid disbursement of funds from the IMF is also an obvious step. As ever, however, the government's priority should be to redouble efforts to improve tax collection and reduce its dependence on foreigners for buying its bonds.

Russian stock market
RTS index



Source: Datastream/ICV

European bank mergers

So, Emu means Europe's banks should engage in a frenzy of cross-border mergers? Well, no and yes.

Europe has recently witnessed a rash of bank mergers. But none is really a full-blooded cross-border deal. The vast bulk are "in-market" mergers, where two banks in the same country combine. Even ABN Amro of the Netherlands' bid for Belgium's Générale de Banque is best described as a "near-market" tie-up, where banks in neighbouring countries merge.

In-market deals – like Switzerland's UBS/SBC, Italy's Credito Italiano/Unicredito and even the mooted Halifax/Royal Bank of Scotland tie-up in the UK – make good sense. They can quickly add value by stripping out duplication. By contrast, the value of a cross-border deal is more strategic. The benefits come less from cost-cutting and more from long-term revenue enhancement. The same goes for near-market deals.

In an orderly world, Europe's banks should consolidate at home first before venturing abroad. That advice certainly applies to *the extremely fragmented* Italian banking sector and, to a lesser extent, Germany's and France's.

But what happens when banks have already put their home in order? Several banks in Britain, the Netherlands, Switzerland and Scandinavia are now so big that they probably cannot grow by acquisition in their domestic markets.

Here, two very different strategies are being pursued. Some, like the Dutch and Swedes, are trying to stretch their home territory – to Benelux and Scandinavia respectively. The British, by contrast, are buying back their shares.

This looks like poverty of imagination, reinforced by the UK's initial absence from Emu. Of course, there is not a single banking market yet. Tax and regulatory differences mean banks would be hard-pressed to sell, say, the same mortgage product across the euro-zone even when there is no currency frontier. Nor do people across the euro-zone necessarily want to buy the same product; attitudes to risk and the like vary.

But this is a terribly static way of looking at things. Eventually, Emu will erode these distinctions and so cross-border banks will enjoy economies of scale. Merely adopting the classic UK approach of "wait and see" looks like a recipe for missing opportunities. Britain's banks have an edge – a consolidated home base, low costs and high share prices – and should press home their advantage.

The current merger wave is prising loose *institutions which could not have been* bought even a year ago. Whenever an in-market deal is done, the banks concerned are arguably put into play – as ABN Amro has shown by muscling in on Fortis' agreed deal with Générale de Banque.

Nor do the politics necessarily work to the insider's advantage. True, national pride can be wounded when a big bank falls into foreign hands. But, with cost-cutting in-market mergers, the buyer has to run the gauntlet of the unions.

EMI

Poor old EMI. After Seagram's acquisition of PolyGram, EMI shareholders face the prospect of sluggish earnings unalleviated by bid speculation. Sir Colin Southgate is bravely saying the industry's *competitive dynamics are unchanged by the* deal. But the fact is that EMI's most likely partner has quit the scene, strengthening two of EMI's rivals in the process.

A quick look at the PolyGram/Seagram transaction multiples suggests EMI shareholders will be lucky to see a whiff of the £7 per share for which Sir Colin was holding out. Stripping out the PolyGram film business, worth perhaps only $750m despite the $1bn-plus sunk investment, Seagram paid some 17 times PolyGram's 1998 operating profits.

Applying the same multiple to the £341m 1998 operating profits EMI reported yesterday gives an enterprise value of some £5.8bn. Less around £750m debt, EMI shares on this basis are worth around 640p. But since potential media bidders for EMI – only Bertelsmann and Disney currently seem plausible – are unlikely to have the same level of synergies as between Seagram and PolyGram, these multiples are on the high side.

A more straightforward method is simply to apply the 34 per cent premium Seagram paid for PolyGram to EMI's pre-talks announcement share price of 508p, giving some 680p. But even this is a little rich, given the bid speculation that had long distorted EMI's fair value.

South Korean strike may damage economic reforms

By John Burton in Seoul

Thousands of South Korean workers vent their feelings as they join the general strike by protesting outside Seoul railway station. Picture: Reuters

Tens of thousands of South Korean workers yesterday launched a two-day general strike that threatens to undermine economic reforms and scare off foreign investors as the *nation struggles with its worst recession* in two decades.

The strike, by the militant Korean Confederation of Trade Unions to protest against growing unemployment, came in spite of a government warning of a crackdown on union leaders who were accused of staging "illegal" industrial action.

Fears of renewed labour violence which marred May Day protests receded as workers gathered peacefully under heavy police escort in Seoul and other cities.

The KCTU, the smaller of Korea's trade union groups, estimated that 120,000 of its 550,000 members had gone on strike. The turnout appeared to be lower, however. Only 2,000 workers demonstrated in front of the Seoul railway station compared with 20,000 union members who had participated in May Day protests in the capital.

Public support for the strikes has been lukewarm. Many KCTU members, who are employed in the important car, shipbuilding and steel industries, are among the highest-paid workers in Korea. Nonetheless the strike could be a prelude to a summer of discontent as the conglomerates, or *chaebol*, begin to cut jobs from next month in response to the recession.

Unionised industrial workers have been hardly affected by the recent jump in unemployment to 6.7 per cent, with most of the jobless coming from small businesses that have gone bust.

The strike's biggest impact was felt at Hyundai Motor, Korea's biggest carmaker, which is threatening to sack nearly a fifth of its 46,000-strong workforce because of a plunge in domestic sales. Production lines at Hyundai car plants in Ulsan were shut down as 27,000 workers failed to report to work. They were joined by 2,700 workers at Hyundai Precision & Industry, which produces four-wheel-drive vehicles.

The KCTU has demanded a stop to mass redundancies, an increase in unemployment benefits, more reform of big conglomerates and a renegotiation of the IMF's $58.35bn bail-out package.

It warned that the strikes, scheduled to end this afternoon, could be extended if the government used force to stop them. Another general strike is scheduled for June 10 unless the government meets the unions' demands.

Euro benchmark sponsors vow to resist political interference

By Samer Iskandar in Brussels and Edward Luce in London

The sponsors of Euribor, a European reference rate for lending in the euro, yesterday said they would resist political interference by European governments so the benchmark could compete effectively with its London rival. The benchmark, devised in Brussels, will be a direct competitor to the London Interbank Offered Rate – Libor – the reference rate for lending in the world's leading currencies.

Some bankers have criticised Euribor as "too politicised". The Banking Federation of the European Union (FBE), which jointly devised Euribor with ACI, the international financial markets association, implicitly accepted the criticism but said it would resist pressure. "It [Euribor] will not work if it is politicised," said Nikolaus Bömcke, secretary-general of the FBE. "We must have a credible rate to convince the markets."

Euribor's credibility has been questioned because of political pressure on euro-zone banks and institutions to adopt the new rate. The Banque de France and Bundesbank have been strong proponents of Euribor, which they believe could help them lure money market business away from London after European monetary union.

Also, French banks are subjected to constant "encouragement" by the French central bank to use the new benchmark, which Matif, the French derivatives market operated by the Paris Bourse, has already announced it will adopt.

Another contentious issue is the selection of banks that quote daily rates from which an average is calculated to form the offer rate. The British Bankers Association, which calculates Libor daily, says it will choose the 16 most liquid banks for its panel to set the Libor rate on the euro. A spokesman for the BBA yesterday said the association was confident Libor would be the standard offshore rate for the euro.

Initial plans, supported by the French and German monetary authorities, for Euribor to include banks from every EU country have been shelved. The list of 54 banks, published yesterday, includes banks from non-EU countries such as the US and Japan, but none from Greece.

"There is absolutely no way" a bank would be maintained in the sample of contributors for political reasons, Mr Bömcke said.

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Greek workers march in Athens yesterday during a one-day nationwide strike against privatisation plans. Page 3. Picture: Reuters

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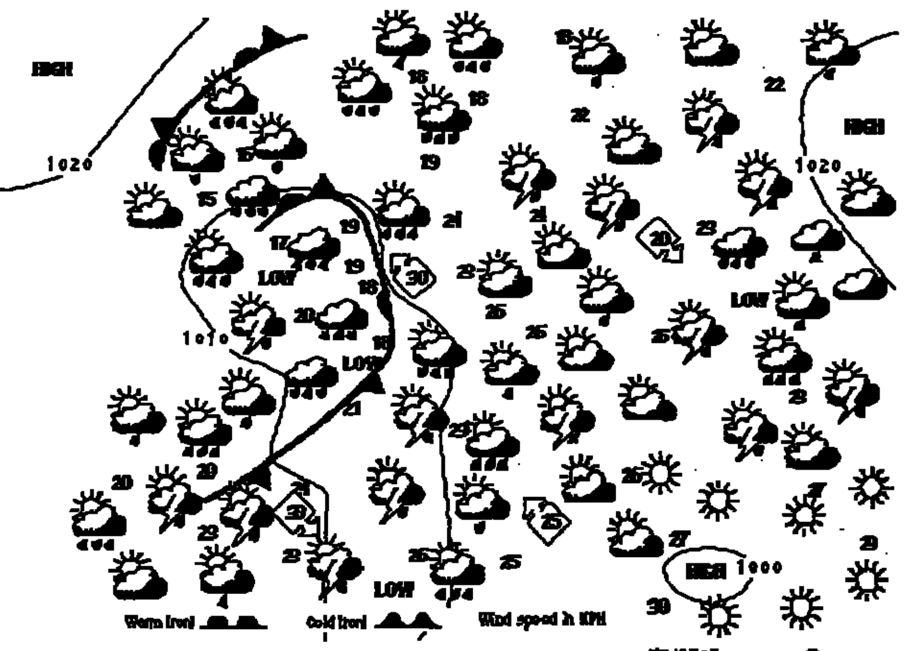
FT WEATHER GUIDE

Europe today

Most of Scandinavia will be cool and unsettled with showers. Italy, France, the western Alps, the Low Countries and western Germany will have a disturbed day with some thundery downpours bringing the risk of flooding. From the Balkans northwards to Poland and eastern Germany, there will be hot sunshine and only isolated showers and thunderstorms. The far north-east of Europe will be wet. Most of Greece will be hot and quite sunny but Portugal, Spain and Italy will have scattered thundery showers.

Five-day forecast

Central Europe and the Iberian Peninsula will have more thundery showers. Thunderstorms will also break out across south-east Europe but the east and the Baltic states will stay fine. Southern Scandinavia will become wet, with the north staying showery.



Situation at midday. Temperatures maximum for day. Forecasts by PA WeatherCentre

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Sun	39
Accra	Thunder	31
Algiers	Fair	23
Amsterdam	Rain	19
Athens	Sun	26
Atlanta	Fair	33
B. Aires	Fair	15
B.ham	Rain	15
Bangkok	Thunder	35
Barcelona	Shower	22
Beijing	Fair	26
Belfast	Shower	16
Belgrade	Fair	26
Berlin	Fair	24
Bermuda	Rain	26
Bogota	Thunder	20
Bombay	Sun	34
Brussels	Rain	19
Budapest	Fair	28
C.hagen	Fair	19
Cairo	Sun	33
Caracas	Thunder	32
Cardiff	Shower	16
Casablanca	Fair	21
Chicago	Thunder	32
Cologne	Shower	20
Dakar	Fair	26
Dallas	Fair	35
Delhi	Sun	41
Dubai	Sun	40
Dublin	Shower	15
Dubrovnik	Shower	24
Edinburgh	Shower	15
Faro	Fair	22
Frankfurt	Rain	21
Geneva	Thunder	18
Gibraltar	Shower	24
Glasgow	Shower	16
Hamburg	Fair	21
Helsinki	Shower	18
Hong Kong	Fair	30
Honolulu	Fair	31
Istanbul	Fair	24
Jakarta	Thunder	34
Jersey	Shower	16
Johannesburg	Fair	20
Karachi	Sun	36
Kuwait	Sun	41
L. Angeles	Fair	20
Las Palmas	Fair	24
Lima	Fair	23
Lisbon	Shower	20
London	Rain	17
Lux.bourg	Rain	18
Lyon	Thunder	19
Madeira	Fair	22
Madrid	Shower	20
Majorca	Shower	24
Malta	Shower	25
Manchester	Thunder	15
Manila	Thunder	33
Melbourne	Sun	21
Mexico City	Sun	35
Miami	Thunder	32
Milan	Rain	22
Montreal	Rain	25
Moscow	Thunder	22
Munich	Fair	23
Nairobi	Fair	26
Naples	Shower	25
Nassau	Shower	32
New York	Fair	28
Nice	Shower	21
Nicosia	Sun	27
Oslo	Shower	18
Paris	Thunder	20
Perth	Shower	19
Prague	Fair	28
Rangoon	Thunder	34
Reykjavik	Fair	12
Rio	Fair	27
Rome	Thunder	23
S. Frsco	Shower	16
Seoul	Fair	24
Singapore	Thunder	32
Stockholm	Shower	18
Strasbourg	Thunder	21
Sydney	Fair	22
Tangier	Cloudy	22
Tel Aviv	Sun	29
Tokyo	Shower	22
Toronto	Cloudy	26
Vancouver	Shower	19
Venice	Shower	23
Vienna	Sun	28
Warsaw	Fair	24
Washington	Fair	28
Wellington	Shower	14
Winnipeg	Shower	23
Zurich	Shower	20

FINANCIAL TIMES
COMPANIES & MARKETS

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INSIDE

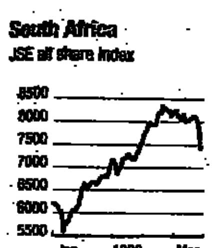
Hydro Aluminium to double yearly production by 2005

Hydro Aluminium, a subsidiary of Norsk Hydro, Norway's biggest quoted company, is soon to decide on the location of a $1bn smelter. The smelter, to be built either in Trinidad or Qatar, will be its first outside Europe. Hydro intends to double its annual aluminium production to 1.35m tonnes between 1996 and 2005. Page 24

German investors flock to buy-outs

Germany overtook France as the most active private equity market in continental Europe last year, as investors flocked into leveraged buy-out deals and took equity stakes in a growing number of start-up or young businesses. Page 18

Rate rise hits South African stocks



An increase in official interest rates in South Africa, triggered by the fragile rand, has cut a swathe through the Johannesburg stock exchange. For most of this year, equities roared ahead as investors discounted a rosy interest rate scenario. But that has changed with the Reserve Bank waging war on currency speculators. Analysts warn banks may have to raise lending rates to the public if currency market turmoil persists. Page 34

AssiDomän may have to sell land

AssiDomän, the Swedish paper and packaging group, could be forced to sell some forestry assets to the Swedish state under a government scheme to repurchase forestry land. Page 18

Matif to end open outcry trading

Matif, France's derivatives exchange, said it would transfer all trading to its electronic platform next Tuesday, only six weeks after it introduced screen-based trading. Officials at Matif, Europe's fourth largest exchange by volume, had expected the transition period to last much longer. Page 16

Troubled rouble boosts dollar

Crumbling confidence in the rouble helped the US dollar advance against European currencies as investors sought refuge in quality. Page 23

US credit card issuers face trouble

The US credit card industry has been profoundly affected by the wave of mergers and acquisitions. Commercial and investment banks have taken advantage of the situation to realign their industry. But credit card issuers face growing write-offs, harder competition and overcapacity. Page 17

Support for Texas Utilities

The $11bn syndicated loan for the acquisition of The Energy Group, the UK electricity supplier, by Texas Utilities of the US has closed with strong support from a syndicate of 48 banks. Page 22

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MARKET STATISTICS

Daimler-Chrysler jobs pledge

Shareholders welcome merger as chairman promises to protect workers and Mercedes-Benz car brand

By Graham Bowley in Stuttgart

Daimler-Benz shareholders yesterday welcomed the company's merger with Chrysler as Jürgen Schrempp, chairman, promised there would be no job cuts and vowed to protect the Mercedes-Benz car brand.

Separately, German unions agreed that US car workers would be represented on the supervisory board of the new Daimler-Chrysler company.

Daimler, Germany's biggest industrial group, told 14,000 shareholders at its annual meeting in Stuttgart that separate talks were progressing with several truck-makers in Asia, including Nissan Diesel, the truck division of Nissan of Japan, about possible co-operation and even acquisitions.

Mr Schrempp indicated Daimler would take a stake of more than 50 per cent if it decided on an acquisition in Asia.

He refused to give fresh details about the Daimler-Chrysler merger, saying more information would be available at an extraordinary shareholders meeting in the autumn when shareholders could vote on the merger. But he tried to reassure those present about jobs, potential damage to the company's reputation and dropping the name of Karl Benz, one of the company's founders, from the title of the combined group.

"The name Karl Benz will be prominently represented in our proud Mercedes-Benz brand all over the world," he said. "Jobs in our new company will not be at risk."

Shareholders responded by standing to congratulate Mr Schrempp on the merger.

IG Metall, the big German engineering union, indicated that United Autoworkers, the US union, would take one of three union places on the Daimler-Chrysler supervisory board.

At present IG Metall has three direct representatives on the 20-strong supervisory board of Daimler-Benz. At issue was whether IG Metall gave up one of these places to the US car workers' union.

Daimler workers elect directly a further six members of the supervisory board. US workers in the combined group are not expected to be offered the chance to participate in filling these places.

Daimler revealed that strong growth in the US was the driving force in its 22 per cent sales increase in the first four months of this year.

The company lifted its revenue forecast for the whole of 1998 to DM140bn ($80bn) from DM134bn after sales reached DM43.8bn in the first four months.

In the US, revenues increased 38 per cent to DM10.3bn, and the company sold 69 per cent more cars. Daimler said operating profit this year would grow more strongly than revenues.

Mr Schrempp said board members were becoming keener on launching the Maybach, a luxury car which would compete with the Bentley and Rolls-Royce marques. A decision would be made in the next few weeks.

He added that 300,000 customers had already shown an interest in the company's new small Smart car, which is to be introduced in the autumn after delays.

Revenues at Daimler-Benz Aerospace, a partner in the Airbus Industrie airliner consortium, rose 18 per cent to DM4.6bn in the first four months. New orders rose 191 per cent to DM10.3bn. Sales of trucks grew 23 per cent to DM14.1bn. Car sales increased 23 per cent to DM19.9bn.


Double vision: Daimler chairman Jürgen Schrempp yesterday Picture AP

El Niño wreaks havoc on fish meal industry

By Gary Mead

The 1997-98 season for the global fish meal and fish oil industries will go down as the worst on record because of the El Niño weather phenomenon.

Peru, the world's biggest fish meal producer, recorded an anchovy catch in April which was 91 per cent lower than a year ago.

"There have been major losses and redundancies. The industry is extremely depressed," said Dr Stuart Barlow, director general of the International Fishmeal and Oil Manufacturers Association (IFOMA).

The Chilean anchovy and jack mackerel catch has been hit almost as much as Peru's. Both have suffered as a result of the unusually high temperature of the upper levels of the eastern Pacific ocean.

"The fish are there, but they have gone much deeper than normal, seeking cooler waters which are far below the reach of ships' nets. There is nothing to suggest that stocks are lower or that spawning has been interrupted," said Dr Barlow.

Between 1991 and 1996 Peru's average annual fish meal production was 1.78m tonnes; this year, if the Peruvian government permits the resumption of fishing, which has been suspended for much of this year, total production might reach no more than 675,000 tonnes, according to IFOMA.

The association predicts that total world production of fish meal in 1998 will not exceed 4.5m tonnes, compared with 6.5m tonnes in 1996. Fish oil, another by-product of the specialised $3.7bn global fish meal industry, is also suffering - production is likely to be no more than 55 per cent of 1997's 1.3m tonnes.

Inevitably, prices have soared. One year ago, fish meal was quoted at $550 a tonne in Hamburg; today the figure is $680. Fish oil prices have risen from $525 a tonne this time last year to $740 a tonne.

The biggest burden of the higher prices is likely to be borne by China's fish and poultry farmers. In 1997 China imported nearly 1m tonnes of fish meal, accounting for one-third of the world's trade.

Hicks Muse in Argentine telecoms purchase

By Ken Warn in Buenos Aires and William Lewis in New York

Hicks, Muse, Tate & Furst – one of the biggest private equity firms in the world – yesterday joined forces with República Group, the Argentine banking and investment concern, to take control of CEI Citicorp, the Argentine telecommunications, cable and media holding company.

In the largest private equity deal ever done in Latin America, Hicks Muse said that with some of its limited partners it had agreed to invest $700m of equity capital to acquire 33 per cent of CEI. Hicks Muse is acquiring the shares from Citibank, the US bank, and Los W SA, an investment group controlled by Argentina's Werthein family.

The deal gives Hicks Muse four seats on the board of CEI and means that, together with República, the private equity firm will have a leading position in the Argentine telecoms, cable and media industries. As part of the deal, República is lifting its stake in CEI to approximately 36 per cent and will also have four board seats. Citibank will continue to own 20 per cent of CEI and approximately 5 per cent will be held by Telefónica de Espana.

Telefónica and CEI also control Telfónica de Argentina, the telephony provider in the south of the country.

Since its formation in 1989, Hicks Muse has completed, or currently has pending, deals with a total capital value of approximately $28bn. Hicks Muse has already invested or committed to invest more than $1.2bn of equity capital in Latin America but the CEI deal is the largest non-US deal Hicks Muse has announced.

Thomas Hicks, chairman and chief executive of the private equity firm, said he viewed CEI "as a unique investment opportunity and as a platform for further media and telecom investments in South America".

CEI was created by Citibank in 1987 as a vehicle to convert $1bn of sovereign Argentine debt into equity. Through a series of debt-equity swaps it acquired stakes in telecoms, gas and electricity utilities, and other privatised businesses.

However, CEI has recently focused almost exclusively on building up its Argentine media assets, steadily selling off its other interests. Last year it broke with its Argentine media partner Grupo Clarín, publisher of the world's biggest-selling Spanish language daily paper, to create a separate media holding. CEI controls Cablevision, the country's biggest cable television provider with an estimated 32 per cent market share.

BRITISH AIRWAYS CHIEF DENIES DEPARTURE REPORTS AND POINTS TO BETTER PROSPECTS

Ayling still optimistic as sterling and strike cut BA profits by 9.4%

By Michael Skapinker, Aerospace Correspondent

A strike by cabin crew and the strong pound cut British Airways' annual pre-tax profits by 9.4 per cent to £580m last year. However, lower fuel prices and a cost-cutting programme helped limit the loss to less than the market had expected.

Robert Ayling, chief executive, said the weakening of sterling and the continued drop in fuel prices put the company in a "strong position" in the current year. He hoped regulators on both sides of the Atlantic would approve BA's planned partnership with American Airlines, in spite of a critical report from the US department of justice last week. The report said the planned alliance would "significantly reduce competition". It said the US department of transportation should only approve the alliance if competitors were granted 336 weekly take-off and landing slots at London's Heathrow airport.

The airline has rejected similar proposals from Brussels, but Mr Ayling said he hoped regulators would come up with an acceptable set of conditions. BA would only go ahead with the alliance if it made commercial sense, he added.

The airline also moved yesterday to scotch reports that Mr Ayling was on his way out, possibly to a job in UK prime minister Tony Blair's government. Sir Colin Marshall, BA chairman, said he expected Mr Ayling to be in the job a year from now.

Mr Ayling said: "I haven't been asked to join the government. I don't expect to be asked and I don't seek to be asked." He did not have the "faintest idea" who was spreading rumours. "If you do this kind of job you get sniped at," he added.

The reports of his possible departure followed his handling of last summer's three-day strike by cabin crew, which cut operating profits by £125m. Sterling's strength accounted for a further £200m reduction in operating profits, which fell 7.7 per cent to £504m. Turnover rose 3.4 per cent to £8.6bn.

Mr Ayling said industrial relations had improved substantially since last year. The company held monthly meetings with trade union representatives. "We tell them as much about the company as we tell our managers," he said. The airline's efficiency programme, which aimed to reduce annual costs by £1bn by the turn of the century, and which sparked the cabin crew dispute, was already showing benefits. Although staff numbers rose 2.6 per cent to 61,000, total employee costs fell 1.6 per cent to £2.2bn. This reflected BA's success in reducing salaries for new recruits.

The efficiency programme had so far achieved savings of £250m. This would translate into £700m of annual savings by 2000-2001. The company had plans for a further £250m in savings.

In spite of the profits fall, BA increased the full-year dividend by 10.3 per cent to 16.6p. Fully diluted earnings per share were down 17.3 per cent to 42p.

Comment, Page 20

Nissan posts loss of $102m as sales slip 14% in Japan

By Michiyo Nakamoto in Tokyo

Nissan, Japan's second-largest carmaker, yesterday unveiled its fourth loss in five years because of sluggish sales in its main markets.

The results contrasted sharply with the record profits announced last week by Toyota and Honda which enjoyed buoyant demand overseas.

Net losses for the group totalled Y14bn ($102m) compared with net profits of Y77.7bn previously, while sales were 1.4 per cent down at Y6,564.6bn.

Nissan said it aimed to break even this year in spite of continuing weak demand in its main Japanese market. The company forecasts lower sales of Y6,500bn but plans to improve profitability through a global restructuring programme that will slash staff and production and freeze investments outside Japan, except in the US.

Kanemitsu Anraku, managing director in charge of finance and accounting, blamed the company's losses on the sharp downturn in the Japanese market, a write-down in the value of its vehicle stocks in the US and valuation losses on its securities holdings.

The net losses came in spite of Y100bn in cost cuts and a Y35bn windfall as a result of the yen's depreciation against the US dollar.

The number of vehicles sold worldwide was down 5 per cent at 2.57m. Domestic sales were 14 per cent down on a unit basis.

Nissan suffered a Y80bn loss in the US after a disastrous marketing and car-leasing strategy combined with a lacklustre product range to leave it with a stockpile of unsold cars.

The company went heavily into the leasing market, only to be hit by a slide in used-car prices.

In response, Nissan aims to slash debts by Y1,000bn from Y2,500bn as part of a major restructuring. The company is also reducing the number of vehicle platforms it uses and reviewing its distribution network. It has virtually banned corporate hospitality, especially in the procurement department. It will slash stocks by Y250bn and cut costs by Y400bn.

As part of the restructuring announced last week, the company has abandoned its target of achieving 25 per cent market share in Japan, and aims to focus on profitability instead. Nissan is aiming for a group profit-to-sales ratio of 5 per cent in the year to March 2001 and 6 per cent in 2003.

● Isuzu Motor, the truck maker which is majority owned by General Motors, suffered a 37 per cent slide in group net profits to Y6bn. The fall in profits was blamed mainly on the economic downturn in south-east Asia, where demand for trucks has slumped.

Suzuki Motor, the smaller car and motorcycle manufacturer, also saw profits fall for the first time in four years.

European integration, Page 19

NEWS DIGEST

GERMANY

Commerzbank buys 30% of Korea Exchange Bank

Germany's Commerzbank has agreed to pay $250m for a 30 per cent stake in Korea Exchange Bank, South Korea's largest in terms of assets. Commerzbank is the first foreign bank to take a significant stake in a Korean commercial bank.

After the capital injection, the government will remain the largest single shareholder in KEB, which has been listed on the Seoul stock exchange since 1994. The German bank will be represented on KEB's supervisory and management boards.

Commerzbank said the deal, under discussion since last month, underlined its "conviction that Asia in general and South Korea in particular will show a positive development over the long term". Its stake is larger, and the price smaller, than was expected when talks were announced in April.

KEB was founded in 1967 as a state-owned foreign exchange and trade finance bank. It needed new capital to meet the Bank for International Settlements' capital equity ratio of 8 per cent by next month or face merger or closure under the terms of the International Monetary Fund's Korean rescue package.

Commerzbank already had a 27 per cent stake in Korean International Merchant Bank, in which KEB is the largest shareholder, and a representative office in Seoul. Contracts on the deal are due to be signed by the end of July.
Clay Harris, Banking Correspondent

AUTOMOTIVE COMPONENTS

Visteon makes Polish buys

Visteon, Ford's automotive components manufacturing subsidiary, has bought Polmot Praszka and Zem, two low-cost Polish components producers, in the company's first acquisition since it was established as a separate operation last autumn.

Polmot Praszka, in central Poland, makes brakes, aluminium castings, suspension springs and oil and water pumps, while Zem, in the south west, produces glass systems. Both companies were bought from the state by Polmot, a private company specialising in the motor industry, three years ago. The value of the transaction was not disclosed.

John Kill, Visteon's manager for Europe, said yesterday his company was still evaluating the future role of the two Polish plants. However, the aim of the move was to develop Visteon's market presence in central and eastern Europe. Polmot Praszka already delivers components to Ford, Fiat and Daewoo. All have important manufacturing operations in Poland.

Visteon, which reported sales of $17bn last year, owns the Alba works in Szekesfehervar in Hungary and Autopal in Nowy Jicin in the Czech Republic.
Christopher Bobinski, Warsaw

NETHERLANDS

NCM doubles despite Asia

NCM, the Dutch export credit insurer in which Swiss Re is taking a majority stake, more than doubled net profits last year from Fl 14.2m to Fl 30.2m ($15m). While the previous year was affected by reorganisation costs, the latest result came in spite of a Fl 34m provision against risks in Asia.

Maarten Hulshoff, chairman, said risk assessment and control was becoming increasingly difficult as economies interlinked. The millennium problem and the arrival of the euro, as well as technological developments in industries such as food, added to the uncertainties.

NCM, which controls the UK's former Export Credit Guarantee Department, last year acquired EKR, its Danish counterpart. **Gordon Cramb, Amsterdam**

OERLIKON-BUEHRLE

Bally IPO planned

Oerlikon-Buehrle plans to make an initial public offering for its Bally unit this year, in spite of last year's rejection by the majority shareholder of attempts at a flotation by Ernst Thomke, former Bally chief executive.

Mr Thomke last year resigned as chief executive after his plans for a partial flotation of the luxury shoe company were rejected by the majority shareholder, Hortense Anda-Buehrle, the daughter of Oerlikon-Buehrle's founder.

At Buehrle's annual shareholders' meeting, the Swiss-based company also said it planned to focus largely on its technology activities – represented by its Balzers and Leybold division. Furthermore, the company said it planned to eventually float its property activities.

In spite of the flotation of Bally, IHAG Holding, which represents the Buehrle family, would keep its investment in Oerlikon-Buehrle, it said.

Oerlikon-Buehrle said IHAG Holding had 37 per cent of its voting rights. Other institutions which vote in an IHAG pool hold 14 per cent, for a total voting majority of 51 per cent. **AFX, Zurich**

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

TAKEOVERS BANKING AND INSURANCE GROUP ASKS DIRECTORS FOR BACKING AND HINTS IT MIGHT TOP ABN AMRO COUNTER-OFFER

Fortis urges Générale to support its bid

By Neil Buckley in Brussels

Fortis yesterday called on directors of Générale de Banque, Belgium's biggest bank, to recommend its takeover bid to shareholders – and hinted it might still top Tuesday's counter-bid by ABN Amro of the Netherlands.

The Belgo-Dutch banking and insurance group made clear it was pressing ahead with takeover plans for Générale in spite of the surprise higher bid from ABN Amro, and strongly defended its offer during its annual shareholders' meeting.

Maurice Lippens, Fortis's Belgian chairman, also opened the door to the possibility of increasing last week's 7-for-3 share offer.

He suggested after the meeting that there were occasions when Fortis could relax its rule that all acquisitions should immediately enhance earnings.

"We have always said we would not make an acquisition that would dilute earnings per share. But on occasions when the opportunity is too good to be true, we could consider changing that," Mr Lippens said.

His message that Fortis was not withdrawing set the stage for Belgium's first takeover battle since Carlo De Benedetti's failed 1988 bid for Société Générale de Belgique – Générale de Banque's parent.

Mr Lippens's call to Générale's board to support the Fortis offer came hours before the board met to consider both competing bids. Jan Kalff, ABN Amro chairman, presented his plans to the board after meeting Jean-Luc Dehaene, Belgian prime minister, and Philippe Maystadt, finance minister.

Directors issued no opinion last night, but plan to make a statement after another meeting on Friday.

Mr Lippens told Fortis shareholders that while ABN Amro's bid was 15 per cent higher than that of Fortis, based on Monday's closing share price, price movements on Tuesday had narrowed the gap to 7 per cent. If ABN Amro shares continued falling while Fortis shares rose, Fortis's offer could end up worth more.

ABN Amro is offering 19 ordinary shares plus BFr9,000 ($246) per Générale share.

He added that Fortis's plan would make Générale the "motor" of the group's banking activities.

"Générale de Banque would be the mother bank of Fortis's banking group," Mr Lippens said.

"It would integrate all the other banking activities, with a decision-making centre in Belgium, in a very clear way, not as a division or a sub-division of [another] bank."

Asked if Générale shareholders would not simply choose the highest bid, Mr Lippens suggested the directors had to decide which offer was best for the bank's future, and advise their shareholders. Mr Lippens received backing from Société Générale de Belgique, which has agreed to cede its 29.2 per cent stake in the bank to Fortis.

Viscount Etienne Davignon, SGB chairman, said that while it wouldbe "irresponsible" to prejudge the view of others, he still supported a Fortis-Générale merger.

"We find the Fortis offer is better as far as the idea we have for the development of the bank," Mr Davignon said. "In the ABN Amro case, the bank would become a subsidiary of ABN Amro. In the Fortis hypothesis, we would have a bank which would not be a subsidiary of anyone. That is a fundamental difference."

Fortis yesterday "sharpened" its 1998 results forecast, saying it now expected an increase of at least 10 per cent in net profits. That followed a strong first-quarter performance, with net profits up 21 per cent to Ecu246m ($273m).

See Observer, Page 13

French bank claims end to forced disposal

By Andrew Jack in Paris

Crédit Lyonnais, the French state-owned bank, is unlikely to sell any of its domestic subsidiaries or operations in order to meet the terms of its new rescue plan, a senior executive indicated yesterday.

Disposals of assets worth FFr35bn ($5.9bn) in France – which were imposed in a decision by the European competition authorities last week – will probably largely take the form of a reduction in the bank's lending portfolio, Jean-Yves Durance, head of the domestic banking network, said.

His comments came after the European Commission approved a plan for Crédit Lyonnais that may ultimately cost the French taxpayer up to FFr147bn, and which imposes new commercial penalties on the bank as well as an obligation that it be privatised by October next year at the latest.

Mr Durance confirmed that as a result of the plan, the bank will be required to cut the number of its agencies from 2,040 to 1,850 by 2000.

However, he said that some could be reclassified or combined with existing back-office or corporate offices.

Other agencies – in towns with more than a single outlet of the bank – would be closed, continuing a process Crédit Lyonnais and its rivals have been undertaking over a number of years.

He said the bank had lost than less than 30 per cent of the clients in the 200 agencies it had closed over the past three years.

Mr Durance ruled out the purchase by other banks of the Crédit Lyonnais branches targeted for closure, adding that he periodically received phone calls from his competitors expressing interest in bidding for some parts of the network.

He said that a cap on lending growth imposed by Brussels would not provide a constraint for individual clients, and that the bank would seek to use securitisation or partnerships with other financial institutions to ensure that it respected the platform for lending to its corporate clients.

In spite of regular complaints by France's commercial banks about the competitive distortions of the mutualist sector, Mr Durance said the retail banking business was currently generating a return on equity of 15 per cent, and he had an objective of 25 per cent in the coming two years.

He estimated that the negative publicity surrounding the bank over the past five years had cost it less than 5 per cent of its clients, and that since the middle of last year, its domestic market share had begun to increase.

Lukoil, Oneximbank to develop joint strategy

By Chrystia Freeland in Moscow

Lukoil, the Russian oil group, and Oneximbank, one of the leading financial groups, yesterday agreed an alliance that signals the emergence of a new financial-industrial behemoth.

Although the agreement falls short of a merger or share swap, the two groups said they would co-operate in financial services and oil and develop a joint strategy for defending their political interests.

Vagit Alekperov, head of Lukoil, said last week he would like to purchase Sidanco, an oil company in which Oneximbank owns a controlling stake. However, yesterday he backed off, saying he would focus on co-operating with Oneximbank for now.

The alliance could raise questions for the foreign allies of the two Russian groups. Oneximbank last year formed a strategic partnership with British Petroleum, which owns 10 per cent of Sidanco; Lukoil has teamed with Atlantic Richfield, the US oil company.

However, Vladimir Potanin, (above) head of Oneximbank, said the Lukoil alliance would not jeopardise the BP relationship.

"We view Sidanco as a factor of strategic partnership with British Petroleum, and we are conducting all our negotiations in consultation with our partner," he said.

The two partners said they would bid separately for Rosneft, the largest Russian oil company yet to be privatised. Oneximbank said it would consider bidding for Rosneft with BP; Lukoil said any bid would be as part of a consortium with Gazprom, the Russian gas giant, and Royal Dutch/Shell.

The government's high-profile sale of Rosneft ended with embarrassment on Tuesday, when no bidders offered to buy the company at the $2.1bn starting price for a 75 per cent stake.

Matif to end open outcry trading

By Edward Luce

Matif, France's derivatives exchange, said yesterday it would transfer all trading exclusively to its electronic platform next Tuesday, just six weeks after it introduced screen-based trading.

The speed of the move, which came after strong pressure from market participants, took some by surprise.

Officials at Matif, Europe's fourth largest exchange by volume, said they had expected the transition period to last much longer: the exchange expected the "hybrid trading" system of open outcry and screens to last for at least 12 months.

The transition took less than 30 trading days, with the proportion of contracts traded on "open outcry" down to about 1 per cent this week.

The move is likely to have strong implications for the London International Financial Futures and Options Exchange, which plans to move to a hybrid system within 12 months.

Liffe, Europe's largest exchange, believes that "open outcry" is still a superior form of trading for certain types of contract, especially futures and options on short-term interest rates.

However, the volume of trading in the Matif future on Pibor, its three-month interest rate contract, moved as quickly to the screens as the other futures and options contracts. This suggests the market has opted decisively for electronic trading on all types of contract.

Matif, which has a strategic alliance with Eurex, the product of a merger between the Deutsche Terminborse and Soffex, the German and Swiss derivatives exchanges, says its electronic system can cope with the complexities of trading on shorter-term contracts.

The system – known as NSC-VF – was pioneered by SBF, the French stock exchange that owns Matif. It is considered an improvement on older electronic systems because it enables users to interface with other electronic systems.

Liffe is also developing an "open architecture" electronic system known as Liffe Connect.

Iberdrola to invest over $2.5bn abroad

By David White, Bilbao

Iberdrola, Spain's second largest power group, plans foreign investments worth more than $2.5bn over the next four years to build on its recent moves into Latin America.

Javier Herrero, chief executive, said the group aimed to convert itself into "a global operator of energy services".

Iberdrola has already invested over Pta150bn ($997m) in Latin America. This includes Pta130bn last year, mainly in Brazil, where it has become the industrial partner in two regional power companies – Coelba in Bahia state, and Cosern in Rio Grande do Norte.

In alliance with Spain's Repsol and Gas Natural groups, it also took stakes in two gas companies supplying Rio de Janeiro, as well as in two gas companies in Colombia.

It previously established footholds in Argentina, Bolivia and Chile.

Mr Herrero said the international investment drive would involve about Pta100bn a year until 2001, with half the total coming from the Spanish parent group.

Its diversification arm, with interests taking in telecommunications and aerospace, would from finance its own investment programme, he said.

He was outlining Iberdrola's plans ahead of its shareholders' meeting on Saturday, at which it is proposing to raise its annual dividend from Pta70.39 to Pta74 per share.

The group increased net profits by 5 per cent last year to Pta101.5bn in spite of a 3 per cent cut in Spanish electricity prices, part of an agreed transition plan for deregulating the sector.

Operating profits were almost 20 per cent down, partly because of a sharp increase in the compensation it had to pay to other electricity companies for its relatively low production costs.

This compensation system has been stopped under the deregulation plan.

First-quarter net profits were more than 7 per cent up at Pta34.5bn. Mr Herrero said that Iberdrola, relying more on hydroelectric and nuclear power than other Spanish generators, would now be able to take full advantage of low fuel costs and operating margins 27 per cent above the average for the sector.

Iberdrola, formed by a merger in 1991, had a 30 per cent share of Spanish power generation last year, and 39 per cent of electricity billings.

Delays to new Boeing 737

By Christopher Parkes in Los Angeles

Airlines waiting for deliveries of Boeing's new version of the 737 commercial jet face delays at least for the rest of the year, the company said yesterday.

A recovery plan following severe production disruption is slightly ahead of schedule, but efforts to ramp up output of Boeing's most popular aircraft still represent the greatest risk to its success, according to Ron Woodard, head of the commercial jet division.

The group said it would know if it had the situation under control by next month, when it aims to move to the next stage of recovery and step up production further.

Unused capacity in former McDonnell Douglas factories in California had been pressed into service to help ease the pressure on plants around the group's headquarters in Seattle.

Two 737s were in the final stages of production at the Long Beach works, and a decision would be taken in the summer whether to shift some final assembly work south, Mr Woodard said.

The company, which is doubling 737 production to 14 a month, had delivered 189 commercial jets of all types so far this year, and expected this to increase to 250 by the end of June and 550 for the full year.

By then, it aims to have raised 737 output to 21 a month, with monthly production of the 747 expected to increase from four to five.

But Mr Woodard hinted that plans for the jumbo might yet be affected by the Asian economic crisis. No review was expected until mid-1999, but the company had detected some "downward" tendencies in demand.

Recovery from a production crunch last autumn, when labour and parts shortages created near-chaos in Boeing factories, has been dogged this year by demands from European and US aviation regulators for changes to the 737.

As a result of demands for the addition of extra emergency exits and the redesign of some components, the delivery of more than 50 737s was delayed by the need for retrofitting.

US credit card issuers braced for trouble as write-offs grow

Rising losses, harder competition and overcapacity have affected the direct marketing companies most of all, writes **John Authers**

No sector of US financial services has been more profoundly affected by last year's wave of mergers and acquisitions than the credit card industry. Since the beginning of 1997, four of the 10 largest credit card issuers have changed hands.

Once pending deals are completed, the biggest 10 issuers will account for 72 per cent of outstanding US credit card debt (or $309.4bn), up from 64 per cent a year ago, while the biggest three have 38 per cent, up from 30 per cent, according to the RAM Research Group.

But the forces driving consolidation for credit cards vary starkly from those driving the rest of the industry. While commercial and investment banks have taken advantage of almost perfect conditions to realign their industry, credit cards have stumbled into trouble.

Credit losses have increased, against the trend for all other categories of loan, spurred by the record rates of personal bankruptcy in the US.

According to Salomon Smith Barney's composite of 35 issuing companies, 4.36 per cent of credit card loans were written off in the first quarter of 1996, but this rose to 5.96 per cent by the third quarter of last year. After a dip, the charge-off rate rose to 5.84 per cent in the first three months of this year.

Meanwhile, the industry has suffered from the effects of too much competition. Supply of credit cards now plainly exceeds demand. Issuers have been forced to make more generous offers, lowering interest rates and adding extra incentives such as air miles. This has eaten into their profit margins.

Worst affected have been the "mono-line" issuers, which rose to dominate the industry using direct marketing and sophisticated statistical models to target specific customers.

With no overheads from large branch networks, and cheap finance open to them by securitising their loans on the capital markets, these companies were able to undercut traditional banks.

At the start of last year, specialists accounted for six of the 10 largest issuers. MBNA America, First USA, Household, AT&T Universal, Advanta and Capital One were all issuers without conventional branch networks.

US credit card outstanding debts
The emerging top ten

	$bn	% of market
Citicorp (including Travelers, AT&T Universal)	64.9	15
Bank One (incl First Chicago NBD)	56.6	13
MBNA America	44.5	10
Discover	36.0	8
Chase Manhattan (incl BoNY)	32.5	8
NationsBank (incl BankAmerica)	19.5	5
Household (incl Beneficial)	17.5	4
Fleet Financial (incl Advanta)	13.8	3
Capital One	13.6	3
American Express (Optima only)	10.5	2
Top 3	166.0	38
Top 10	309.4	72
Industry Totals	421.8	

Source: RAM Research Group

But many of the credit card accounts controlled by these companies have now returned to conventional banks. Since January last year, First USA has been sold to Banc One, the Columbus-based regional bank which was keen to shore up its own weak credit card business, for $7.3bn.

AT&T sold its credit card business to Citicorp for about $4bn, while Advanta's lossmaking credit card portfolio was sold to Fleet Financial, the largest New England bank, for a premium of about $500m.

Other reshuffles in the industry saw Banc One and First Chicago NBD, both conventional banks with a heavy commitment to credit cards, merge to become the second largest issuer, while Bank of New York quit the business by selling its card portfolio to Chase Manhattan. Household, one of the largest mono-lines, bought Beneficial, a consumer finance company with interests in credit card and home equity loans, for $8.3bn.

Economies of scale are important in credit card operations sold nationally by direct marketing rather than using local branch networks. But consolidation will also allow issuers to reduce the industry's capacity.

Overcapacity is evident from the falling response rate to the industry's blanket mailings of credit card solicitations. According to Salomon Smith Barney, customers' response rate to these mailings has fallen from a high of 2.8 per cent in 1992 to 1.3 per cent last year.

A further problem is the reduction in long-term demand for credit card debt. Gary Gordon, analyst at Paine Webber, said credit card debt would no longer rise faster than the level of overall consumer debt, suggesting this had happened in the past "because credit card issuers steadily widened the pool of consumers they were willing to lend to".

He added: "That growth opportunity has largely ended in the US because nearly everyone today gets solicited, including children, pets, portfolio managers and the recently bankrupt."

He suggested the credit card might be losing its status as the most popular form of short-term debt, in the face of strong direct marketing from home equity lenders offering borrowers the chance to consolidate their debts at lower rates of interest. These also benefit from low overheads, with marketing done via toll-free numbers, and television advertising normally fronted by former sports stars.

Oliver Wyman, the New York-based specialist banking consultancy, pointed out that the mono-line issuers had suffered the greatest increases in bad debts. This might be because "the industry centre of gravity has shifted".

According to the consultancy, higher-income households have reduced their consumer debt, while families earning less than $25,000 a year have increased theirs.

This shift has lowered average credit quality and, combined with other factors such as the liberalisation of the US bankruptcy code, sent the mono-line companies' models awry.

But the consultancy makes clear the problem with the models is not a "fatal flaw", and the difficulties of the mono-line issuers are only a sign of the evolution of credit card business.

Thyssen, CSN in Brazil move

By Jonathan Wheatley in São Paulo

CSN, Brazil's biggest steel group, and Thyssen Krupp Stahl of Germany, the world's third biggest, are to form a joint venture to make galvanised products for the motor industry in Brazil and the Mercosur countries.

The announcement follows the failure of the two to secure minority stakes in Acesita and CST, two other Brazilian steelmakers.

The stakes were bought on Monday by Usinor of France for R$720m (US$625m) in what was seen as a first step towards restructuring in the industry.

CSN and Thyssen will invest $250m in the venture, known as GalvaSud, to begin operating in 2000 with an annual capacity of 350,000 tonnes.

CSN will have 51 per cent of its capital, but the companies will have equal control of management.

CSN said the deal was part of a strategy to bring advanced technology to Brazil through partnerships with foreign groups.

The company said it was close to reaching agreement with Nucor of the US on a $700m investment to build a steel mill in the country's north east.

It was also in talks with IMSA of Mexico on a cold and galvanised steel unit.

CSN appeared to put a brave face on its failure to secure the stakes in Acesita and CST, welcoming Usinor to Brazil.

Analysts say the arrival of the French group threatens the current dominance of the Brazilian market for intermediary and some speciality steel products by CSN and Usiminas, Brazil's second biggest steel company.

Usinor said it would press ahead with plans by CST to expand annual production of steel slabs from 3m to 4.5m tonnes and begin producing value-added hot milled products from 2000.

Investment in Brazil's steel industry has been held back by its complex ownership structure and lack of global operators.

Holders of minority stakes in several steel companies, including pension funds and iron ore group CVRD, are understood to be preparing to dispose of their interests.

NEWS DIGEST

STEEL

Ispat, Inland reach final agreement on $1.4bn deal

Ispat, the international steel producer, and Chicago-based Inland Steel said yesterday they had reached definitive agreement on a $1.43bn deal under which Ispat will acquire Inland's steel manufacturing operations. The transaction was first announced in outline form in March, with the two companies saying they hoped to close the transaction in the third quarter of 1998. However, Robert Darnall, Inland chairman, said yesterday the final agreement contemplated closing the deal on June 30, assuming all remaining conditions are met.

Inland added that it planned to return a "significant portion" of the net proceeds from the sale of the manufacturing operations to shareholders by holding a tender offer to buy back its own shares. "The tender offer will take the form of a Dutch auction and should be completed about one month after the auction begins," it said. Once the tender offer is completed, Inland will then merge its remaining assets into Ryerson Tull, its 87 per cent-owned metals distribution subsidiary which is already listed. Nikki Tait, Chicago

INFORMATION SERVICES

Acxiom to buy May & Speh

Acxiom, the Arkansas-based data information and mailing list provider, yesterday confirmed it was acquiring Illinois' May & Speh, for about $625m, in a share exchange deal. Like Acxiom, which has operations throughout the US and the UK, May & Speh specialises in providing direct marketing and information technology outsourcing – such as systems consulting, data warehouses design, and list processing. The deal is the latest in a series of consolidation moves in the database marketing services business. Nikki Tait

PACIFIC ENTERPRISES/ENOVA

FERC approves $6.6bn merger

The Federal Energy Regulatory Commission gave final approval yesterday to the $6.6bn merger of Pacific Enterprises and Enova Corp which will create the largest utility in the US in terms of customer accounts. Pacific Enterprises and Enova said they plan to begin operating as a new company, which will be known as Sempra Energy, by late summer.

The merger still needs Securities and Exchange Commission approval. Enova is an energy management group providing electricity, gas and other products in the US and Mexico. Pacific Enterprises is an energy-services company, whose Southern California Gas unit is the nation's largest natural gas distributor. Reuters, Washington

FINLAND MANUFACTURER IN LINK-UP WITH JAPANESE GROUP TO EXPLOIT RISING DEMAND FOR LIFTS AND MOVING WALKWAYS

Kone, Toshiba unveil global alliance

By Tim Burt in Stockholm

Kone of Finland, one of the world's largest elevator and escalator manufacturers, is forging a global alliance with Toshiba, the Japanese electrical equipment and electronics group, to exploit rising international demand for lifts and moving walkways.

The Finnish company – currently the largest producer of escalators and the world's number three in elevators – said the partnership signalled growing consolidation in the sector and hinted that it could be followed by further cross-border alliances.

"We believe global consolidation will happen and we want to be active in that situation," said Anssi Soila, president of Kone. "In addition to conventional acquisitions, you have to use innovative methods to join forces."

Together, Kone and Toshiba's elevator and escalator arm are expected to challenge the market dominance of Otis of the US and Schindler of Switzerland, the world's two leading elevator producers.

The combined operation will produce about 30,000 elevators and escalators a year and boast annual sales of FM17bn ($3.2bn), of which Kone would contribute FM13bn.

Mr Soila said the two companies would control 14 per cent of the world market, worth an estimated $10bn a year. The partnership is initially expected to focus on Japan and China, two of the fastest-growing markets.

Industry analysts yesterday suggested that the Asian market, led by Japan, was growing at about 10 per cent a year, compared with more moderate growth of 5-7 per cent in North America, and flat demand in Europe.

"This is a natural step for Kone and could prove the first step towards a merger of their elevator operations," said one analyst.

In the first stage of the alliance, Kone has agreed to license its new hoisting technology to Toshiba, while the Japanese company will offer access to its high-speed elevator mechanisms and motor drives.

Toshiba is currently number three behind Mitsubishi and Hitachi in the Japanese market for such technology.

Some analysts predicted that Toshiba could leapfrog its rivals by exploiting Kone's so-called EcoDisc system, which removes the need for a machine-room above elevator shafts.

Kone is already installing 55 such elevator systems at stations on Tokyo's Line 12 subway, a new circular route linking all the main metro lines in the city.

The two companies have also set up working groups to seek cost-savings by reducing overlap in marketing, product development, purchasing and production.

There are no current plans, however, for any cross-shareholdings.

Last year, Kone reported pre-tax profits of FM202m on sales of FM12.3bn. Toshiba did not break out profits for its elevator and escalator activities.

Air France privatisation to be delayed

By David Owen in Paris

The partial privatisation of Air France, the French national carrier, will now not take place until after the summer.

Jean-Cyril Spinetta, chairman, made the disclosure as the company yesterday gave further notice of its return to financial health by announcing its first full-year net profit for several years.

Mr Spinetta attributed the privatisation decision to the need for a law authorising proposals to offer pilots shares in the company in exchange for accepting pay measures designed to cut its annual salary bill by FFr500m ($84m).

The proposals have triggered the threat of a strike by the main pilots' union which could disrupt services in June, traditionally the best month for the carrier's domestic operations.

For the year ended March 31, the group reported net attributable profits of FFr1.87bn, against a pro forma loss of FFr147m in 1996-97. Turnover advanced 9 per cent, from FFr55.6bn to FFr60.7bn. Operating profit soared to FFr2.47bn, against FFr161m.

Mr Spinetta said that while the results were good, the company remained in a state of convalescence. It was unlikely that load factors would stay above 73 per cent, as they did in the year just ended. Vigilance on costs was still necessary, he said.

The group also confirmed it had placed a firm order for 20 new medium-haul Airbus A320 range aircraft, with options for 20 more. It said the aircraft would replace its current fleet of 19 Boeing 737-200s by the spring of 2002.

The company said it had changed certain accounting methods to bring them into line with best international practice. The changes had no significant impact on the results, but had reduced shareholders' funds by about FFr1bn. It said net debt had fallen nearly FFr400m during last year, to FFr15.5bn.

The partial privatisation, which may involve up to 47 per cent of the company's capital, is set to be one of Europe's flagship *state* share sales of 1998.

Jean-Cyril Spinetta: company remains in convalescence and vigilance on costs is necessary AP

Sweden warns Assi on land

By Tim Burt

AssiDomän, the Swedish paper and packaging group, could be forced to sell some of its forestry assets to the Swedish state under a government scheme to repurchase forestry land.

The company, which was partially privatised by the last, Moderate-led government, was told yesterday it had received too much land as part of the privatisation.

Anders Sundström, industry minister, said the previous government had made a mistake in giving some 3.4m hectares to AssiDomän ahead of the sell-off.

Addressing a meeting of Sweden's national farmers' union, the LRF, Mr Sundström said: "I want to participate in making a sizeable part of the company's forest land government property."

AssiDomän said it would be seeking discussions with the government, which retains a 50.2 per cent stake in the company.

Government officials refused to disclose what action Mr Sundström might take if the company mounted a legal challenge.

AssiDomän made clear yesterday it wanted to retain forestry land in three core areas around its largest plants and sawmills in Sweden. But the company indicated it might be willing to dispose of other land.

Mr Sundström said the amount of land inherited by AssiDomän unfairly discriminated against small, locally owned saw mills.

Earlier this month, the company announced a 27 per cent increase in first-quarter profits from SKr360m to SKr456m ($59m) on sales of SKr5.7bn – compared with SKr4.8bn in the first three months of 1997.

Germany surges ahead in venture capital

By Katharine Campbell, Growing Business Correspondent

Germany overtook France as the most active private equity market in continental Europe last year, as investors flocked into leveraged buy-out deals and took equity stakes in a growing number of start-up or young businesses.

"It is what people have been saying would happen for years, and now it finally has," said Paul Waller, chairman-elect of the European Venture Capital Association (EVCA) and director of fund management at 3i, the European private equity group.

The mantra of shareholder value, which has spurred German conglomerates to restructure, has provided new fodder for the buy-out business.

Meanwhile, early-stage investing (money for start-ups plus seed capital) has been given considerable impetus by rising stock markets and the success of Germany's new bourse for growth companies.

"The Neuer Markt has already given rise to some tremendous exit valuations," said Mr Waller.

From a total of Ecu1.3bn ($1.4bn) invested, Ecu200m was channelled into early-stage German companies, up from Ecu95m in 1996. Equity investments in buy-outs totalled Ecu476m, after Ecu151m the previous year.

In France, from a total of Ecu1.2bn, buy-outs sucked in equity capital of Ecu606m, more than twice 1996 levels, but early-stage investing was Ecu90m, a small fall on the previous year.

Germany is also now investing about twice as much in young companies as the UK. "Relative to the size of the German economy, that's what it should be," said Mr Waller. "It's just that people regard Germany as very underdeveloped across the board in private equity."

But the sudden increase is not without drawbacks. Falk Strascheg, ECVA chairman, warned: "We have had very strong support from government departments in this area, which is good. But it is also causing problems because money has been given to some people who are not very competent."

Early-stage investing surged 60 per cent across Europe to Ecu718m. Total new European investment across all categories of private equity rose 42 per cent to Ecu9.7bn.

Returns from early-stage investors, which vary more between managers than for buy-outs, have improved significantly among the best funds, helping to spur interest in the area.

Concerns about too much money chasing too few deals in the buy-out field have also encouraged companies to look again at early-stage investing. Total new funds raised last year, mostly for buy-outs, more than doubled to Ecu20bn.

NEWS DIGEST

REAL ESTATE

Swedish bank disposes of property for SKr2.26bn

FöreningsSparbanken, one of Sweden's leading commercial lenders, yesterday completed its withdrawal from real estate operations with the sale of 232 branch properties for SKr2.26bn ($291m) to Kungsleden, a domestic real estate group.

The bank, created last year through the merger of Sparbanken Sverige – known internationally as Swedbank – with Föreningsbanken, said it would reap a capital gain of about SKr600m. The sale comprises 410,000 sq m of lettable space, with a total rental value of SKr330m. Officials said about one-third of the properties had been inherited from Föreningsbanken and the rest were existing Swedbank branches.

The bank stressed the sale did not mean it was closing branches, but would instead rent all its 1,000 branches. **Greg McIvor, Stockholm**

INFORMATION TECHNOLOGY

Icon Medialab plans listing

Icon Medialab International, a Swedish information technology group, yesterday announced plans for a stock exchange listing expected to value it at about SKr420m ($54m).

The company said it would list via a placement on the unofficial SBI list in Stockholm and it was also studying a future Nasdaq listing. The company had turnover of SKr66m last year, which is projected to rise to SKr200m in the current financial year. **Greg McIvor**

INVESTOR

Marcus Wallenberg steps down

Investor, the main investment vehicle of Sweden's Wallenberg business empire, said yesterday Marcus Wallenberg was standing down as chief financial officer to concentrate on other directorships.

Mr Wallenberg, a nephew of family patriarch Peter Wallenberg, will remain deputy chief executive of Investor. He will be succeeded by Pia Rudengren, Investor's deputy chief financial officer. **Tim Burt, Stockholm**

PHARMACEUTICALS

Teva makes European buy

Teva, Israel's largest pharmaceuticals company, yesterday stepped up its European expansion with the $87m acquisition of Pharmachemie Group, the production and marketing division for generic drugs of Netherlands-based OPG Group. Pharmachemie had sales of $130m for the year ended in April. **Judy Dempsey, Jerusalem**

INSURANCE

Allianz reveals hidden reserves

Allianz, Germany's biggest insurer, said yesterday its hidden reserves totalled DM87.7bn ($49.5bn) at the end of last year. This is the first time the group has published such figures, which will make it easier for analysts and investors to calculate the company's net asset value and compare its share price with other European insurers. Allianz also said the value of its capital investments was DM470bn. **Christopher Adams**

AIRLINES

MAS to appease shareholders

MAS, owner of Malaysia's national airline, is submitting a new restructuring proposal to ease hardships brought about by the economic crisis.

Although no details were released it is aimed at appeasing shareholders angered by the first proposal, submitted in April, which was primarily designed to ease the debt burden of Tajudin Ramli, MAS's executive chairman and controlling shareholder. **Sheila McNulty, Singapore**

JAPAN COUNTRY'S SIX LARGEST TRADING COMPANIES HAVE COMBINED RISK OF Y1,025.5bn AS ECONOMIC AND POLITICAL TROUBLES BEGIN TO TAKE TOLL

Trading groups reveal heavy Indonesian exposure

By Michiyo Nakamoto in Tokyo

Japan's six largest trading companies yesterday revealed the extent of their exposure to Indonesia. The groups have been among the most active supporters and biggest beneficiaries of Indonesian economic growth, but the current economic crisis has made them some of the biggest casualties.

The six companies' combined exposure in the country amounts to Y1,025.5bn at a gross level, including investments, loans and loan guarantees made either through the parent company, subsidiaries or special purpose companies.

A proportion of the exposure is covered by trade insurance. Excluding that, the net exposure to Indonesia alone comes to Y678.1bn.

Trade route

Japanese trading companies' exposure to Indonesia

Ybn	Gross	Hedged	Net
Itochu	193.2	28.9	164.3
Marubeni	248.3	111.2	136.1
Mitsui	156.6	67.0	89.0
Mitsubishi	134.4	69.2	65.2
Nissho Iwai	171.5	52.7	118.8
Sumitomo	147.5	32.8	114.7

Source: Companies

While most of the investments are in long-term industrial and infrastructure projects such as power generation and chemical plants, which are not expected to collapse as a result of the economic turmoil, the level of their exposure means that all the trading companies are likely to suffer to some degree.

At the same time, their strong connections to the power network of Indonesian business could turn into a liability. This circle of influential people includes relatives and people with close links to former president Suharto who are now coming under the scrutiny of the new government, which aims to cleanse Indonesian business of nepotism and unfair practices.

So far, the impact of the Indonesian crisis has been more straightforward. Many of the trading companies' businesses have been hit by the downturn in the domestic economy, which has undermined demand for products such as petrochemicals. This will put pressure on the trading groups' profits.

"The Asian turmoil is leading to weak materials markets world-wide," said a representative of Marubeni.

In addition, the currency devaluation will undermine profits from Indonesian operations. "If the currency is down by 80 per cent, then presumably their cash flow is 80 per cent down," says Matt Aizawa, industry analyst at Merrill Lynch in Tokyo.

He expects the trading companies to make provisions of Y15bn-Y30bn for the downturn in their Indonesian businesses.

The impact of the economic downturn has also frozen some projects altogether. "Plant exports have been halted and the Cilacap electric power plant has been frozen," says Mitsubishi.

The Cilacap plant was to be one of the largest energy projects ever undertaken in Indonesia. Mitsubishi won the contract to arrange construction of the plant and played a central role in organising the $700m financing.

Expansion of the $1.8bn Chandra Asri petrochemical project, in which Marubeni has invested Y88bn, has also been halted. Itochu and Nissho Iwai, meanwhile, each have a 5 per cent stake in a $3.1bn Tuban ethylene plant which has been frozen in mid-construction. Mitsui also has a significant investment in the $2.5bn Paiton plant, an electric power plant in which it has a 32.5 per cent stake.

Part of the problem is that the markets for the products produced by these plants are not likely to fulfil earlier forecasts.

Perhaps more worrying is the fact that many Japanese trading companies are involved in such large-scale projects in partnership with local businesses, some of which may not be able to live up to their commitments.

The degree to which companies may face further problems in their Indonesian businesses depends to a large extent on who they have tied up with, says Kota Nakako, industry analyst at UBS Global Research in Tokyo.

Marubeni's local partners together have a 75 per cent stake in Chandra Asri. "If these companies face difficulties, even if Marubeni is a minority investor, it will have to put up more funds," Mr Nakako says.

In contrast, Mitsui's investment in Paiton is in partnership with Mission Energy of the US, which has 40 per cent, and General Electric of the US, with 12.5 per cent. The Indonesian electricity authority has 15 per cent. With such strong US partners, the pain can be more widely spread.

So while Japanese trading companies are all exposed to the uncertainty in Indonesia, there is a wide divergence in the degree of risk.

The blue-chip companies such as Mitsubishi, Mitsui and Sumitomo have been fairly cautious in their Indonesian operations, and are better able to weather any financial pressures stemming from the crisis, such as provisions.

Itochu, Marubeni and Nissho Iwai, however, are under greater pressure because they have greater exposure to Indonesia and are not as financially solid.

"Nissho Iwai put a lot into Indonesia. They saw it as a way to propel the company into the top ranks of the industry, so they took significant risks," Mr Nakako points out.

Likewise for Itochu, which was badly knocked by its exposure to the property market during the bubble years, involvement in the growing Indonesian market provided a way to regain some of its former momentum.

Until recently, Indonesia offered these companies a chance to catch up with the industry's upper tier. Ironically, it has become the curse that is threatening to widen the gap.

Nissan gears up for better European integration

Unco-ordinated strategies in Spain and the UK failed to take advantage of economies of scale, reports **Haig Simonian**

With sales declining at home and losses deepening in the US, Nissan's reorganisation of its convoluted manufacturing activities in Europe comes not a moment too soon.

Japan's second biggest carmaker builds vehicles in Spain and the UK, but, until recently, the two have been poles apart. Only with a new generation of products, starting in 2000, will Nissan begin to reap the economies of scale that its size in Europe deserves.

The company's UK operations are much more coherent than those in Spain. Nissan was the first Japanese carmaker to manufacture in the UK. Last year, it built 123,354 Primeras and 148,430 Micras. From early 2000, a third UK-built range will slot in between the compact Micra and family-sized Primera.

By contrast, Nissan's Spanish operations were until recently as messy as a badly stirred-paella. The company builds everything from forklift trucks to lorries, with vans and sports utilities in between, in a number of locations.

The complexity stems from Nissan's strategy in Spain – its first European bridgehead – where it started building vehicles in 1983, according to Ian Gibson, Nissan's manufacturing head in Europe.

Although usually identified with the UK operation he masterminded, Mr Gibson has since June 1997 worked from Nissan's Spanish base in Barcelona to oversee its British and Spanish integration.

Based in Barcelona's Zona Franca, Nissan makes three types of car in Spain: the Terrano sports utility; the Serena, a multi-purpose vehicle (along with its commercial derivative, the Vanette); and a limited number of Patrols, a venerable but hardy sports utility much loved by the Spanish military.

The Patrol marked Nissan's manufacturing debut in Spain in 1983, when Motor Iberica, a private sector vehicle builder, wanted to diversify from light commercial vehicles, buses and forklift trucks, many sold under the Ebro brand.

"Co-operation grew project by project," says Mr Gibson. After the Patrol came the Vanette. Eventually, Nissan took full control as Motor Iberica got into difficulties when the Spanish economy slid into deep recession in the early 1990s.

Even then, however, its Spanish and UK manufacturing arms – and their products – barely spoke to each other. While the UK expanded from a single to a two-model volume manufacturing operation, Nissan's Spanish side remained a specialist, building relatively small volumes of a wide range of products.

That disparity was reflected in sales and marketing. Nissan's UK distributor – then still independent – was most interested in volume cars, meaning the Spanish sports utilities barely made an impact. By contrast, retailers in much of continental Europe – where government limits often restricted Japanese sales – preferred higher margin products, such as sports utilities, to the UK-built cars.

Only in the mid-1990s did Nissan start to think about simplifying its manufacturing in Europe. Bruised by poor earnings in Japan and the need to cut costs, attention belatedly focused on improved co-ordination in Europe. "My goal is to run this as one multi-site, multi-product European business," says Mr Gibson.

One reason for the delay was that Nissan had still to sort out the complex structure inherited from Motor Iberica. In recent years, the truck, van and forklift activities have been hived off into subsidiaries, while sales and marketing have also been separated out.

The other priority has been to improve quality and productivity throughout Spanish manufacturing, but particularly at the Zona France site. Although capacity utilisation remains poor,

Nissan's Spanish operations

Production (Units)	1997	96	95	94	93
Terrano II	48,815	44,227	51,675	51,086	32,780
Serena	13,775	14,689	19,175	17,283	17,864
Vanette Cargo	19,388	28,654	21,148	16	0
Patrol	4,578	4,768	6,026	5,519	5,654
Vanette	8	0	8	13,771	17,933

Spanish market sales, 1997	Units	Market share %	% chg since 1996
Passenger cars	34,468	3.4	+41.0
4x4 vehicles	11,254	20.4	+3.1
Light commercial vehicles	8,019	13.5	–12.4
Others	6,434	–	–
Total	60,175	4.8	+21.8

Source: Company

the break-even point has gradually been reduced from 80 per cent of capacity to 65 per cent as efforts have been made to improve productivity and cut waste, says Mr Gibson. "The plant is now among the best in Europe, but it still needs more modern products."

Supplying them is the next stage of the reorganisation process. Nissan's new manufacturing strategy for Europe, not expected to be affected by the group's latest round of cutbacks in Japan, involves co-ordinating the UK and Spain much more closely than before.

"This is a 450,000-unit-a-year business. That starts to give you the economies of scale that make it all more viable," he says.

Central to the process will be the HS, the new platform (basic engineering structure) for Nissan's new mid-sized car to be built in the UK.

The new model, replacing the Japanese-built Almera, will also form the basis for the HM, a small multi-purpose vehicle to be made in Barcelona from mid-2000.

Moving to common platforms in Spain and the UK will be "the tool allowing us to achieve the benefits of everything we've been trying to do", says Mr Gibson.

The new vehicles will, for example, have a large proportion of common components. More than 60 per cent of parts will be shared, he says. That will allow Nissan to negotiate lower prices from its suppliers in return for bigger orders.

There will also be advantages internally: Nissan's Madrid engine plant will make diesels for the UK and Spanish built vehicles. Similarly, transmissions for the new generation models will be sourced from Barcelona.

At a later stage, Barcelona is expected to build a larger multi-purpose vehicle, probably off an expanded version of the HM platform. And new vans should follow from both platforms.

The changes should allow Nissan to improve the profitability of its European operations drastically in the years ahead. But they also beg the question of why such measures were not taken years ago.

Mr Gibson recalls the 1992-95 recession and Nissan's own financial difficulties in Japan in those years. "You don't start to think of building edifices, you start to think of fingers to put in the dyke."

Driven: Ian Gibson is overseeing the UK and Spanish integration

Toyota to open car theme park

By Bethan Hutton in Tokyo

Toyota, the Japanese carmaker, yesterday became the latest entrant to Japan's crowded theme park market, with the announcement it would invest Y15bn ($109m) in a car theme park on the Tokyo waterfront, to open next year.

Toyota hopes to attract 3m visitors a year to the park, which will feature displays and rides relating to cars of the past, present and future. The development will be part of a shopping and leisure complex being built by a consortium of trading and construction companies at a cost of about Y50bn.

The Japanese have been enthusiastic visitors to theme parks over the past decade, but Toyota will face competition from a growing list of other attractions in planning or under construction, at a time when the number of visitors to Japan's theme parks is falling.

Tokyo Disneyland drew 16.7m visitors last year, a 3.9 per cent fall on the previous year, while Huis Ten Bosch, a Holland-themed park near Nagasaki, attracted 4.1m visitors, a fall of 2.9 per cent.

Bad weather was blamed for the declines, as well as the depressed economy. There are also signs of a shift to lower-priced, more informal leisure activities.

However, the rush to build new attractions continues. Other big openings include a Universal Studios movie park in Osaka, opening in 2001 at a cost of more than Y170bn which expects 8m visitors a year. Tezuka Osamu World, a park based on classic Japanese cartoon characters, should open in 2003 on reclaimed land by Tokyo Bay. The park will cost Y300bn to build and expects 10m visitors a year.

Tokyo Disneyland is also expanding, with Tokyo DisneySea, an ocean-themed attraction to open next to Disneyland in 2001, seeking 10m visitors a year and costing more than Y330bn.

Suharto son to retain Lamborghini stake

By Gwen Robinson in Jakarta and Haig Simonian in London

The youngest son of Indonesia's former president Suharto yesterday dismissed reports he may sell his 60 per cent stake in Lamborghini, the Italian sports car maker, to Volkswagen of Germany.

The two sides have discussed a link between Audi, VW's executive cars subsidiary, and Lamborghini. The talks are believed to have ranged from supplying Audi V8 engines to a full takeover.

Mochamad Ircham, a spokesman for Hutomo "Tommy" Mandala Putra, said some parties had expressed interest in buying the Lamborghini stake, but that Mr Mandala Putra intended to retain his holding and expand Lamborghini's role in his own automotive business. "In fact, we want Lamborghini to be the flagship of our automobile business," he said.

VW wants to add some luxury car brands to its product portfolio. However, its attitude to Lamborghini is likely to be influenced by its success in winning Rolls-Royce Motor Cars, the UK super luxury car group which has been put on sale. VW should discover next week whether its £430m ($704m) bid will be approved.

The timing for any possible link with Lamborghini has also been affected by the economic turmoil in Indonesia. VW may still be uncertain about the ultimate aims of Lamborghini's Asian shareholders. Mr Mandala Putra holds 60 per cent of Lamborghini while Mycom of Malaysia owns 40 per cent.

Mr Mandala Putra embarked in 1996 on plans for an Indonesian national car, the Timor. The project quickly drew criticism at home and abroad after the government granted exemptions from import duty and tax. Japan, the US and the European Union attacked the concessions, which made Timors about 60 per cent cheaper than similar-sized cars in Indonesia.

The tax and tariff concessions were abolished in January under the reforms agreed with the International Monetary Fund. However, Mr Mandala Putra's spokesman said the Timor project would continue, in spite of Mr Suharto's resignation last week.

The resignation has fuelled calls for the termination of privileges and exclusive government contracts bestowed on Mr Suharto's family and friends.

Mr Mandala Putra through his Bimantara Group owns or has a majority stake in about 50 companies ranging from automotive, chemicals and media to telecommunications, infrastructure and hotels.

Ahold expected to buy out Thai partner

By Ted Bardacke in Bangkok

Ahold, the Netherlands-based supermarket group, is expected to agree to buy out its joint venture partner in Central Retail of Thailand, a supermarket operator.

The deal, which is an eight-year loan by Ahold to the local partner, Central Group, will when repaid give the Thai company an option to take 50 per cent of the joint venture, which operates 38 branches of Tops Supermarkets.

"Given regulations and local sentiment right now, we thought this structure would be more acceptable," said Mark Chong, an Ahold spokesman in Singapore.

The Ahold deal follows the purchase earlier this month by Tesco of the UK of a controlling stake in the Lotus hypermarket chain from Thailand's sprawling and financially distressed CP Group.

Tops and Lotus do not directly compete in the Thai market.

TELECOMMUNICATIONS GROUP CLAIMS TO BE FIRST TO OFFER 'VIRTUAL PRIVATE DATA NETWORKING' BASED ON INTERNET TECHNOLOGY

Energis unveils cost-cutting service

By Alan Cane

Energis, the UK telecommunications company, said yesterday it would be the first to offer business customers an advanced service which could sharply reduce their network management costs.

Called "virtual private data networking", the service is possible because of technological advances which enable much of the equipment which customers use to manage their network to be built into the network itself and controlled by the network operator.

The service will provide customers with digital voice and data communications based on internet technology without the need for equipment on their premises.

Energis, which sells to business customers, uses fibre optic lines wrapped round the cables of the National Grid, which has a majority stake in the group.

Chris Burke, Energis network director, said the group was leading the race to virtual data networking because of development partnerships it has signed with Northern Telecom and Newbridge Networks, Canadian based companies which are leaders in telecommunications and data networking.

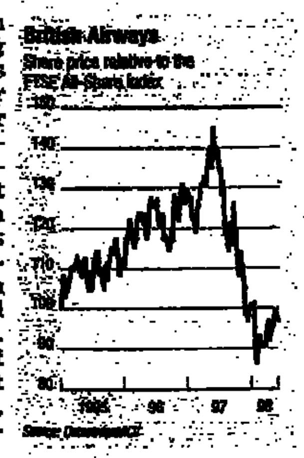
He said Energis would provide virtual data networking in the third quarter of this year, although he did not expect customers to take the service in large numbers until 1999.

Energis also announced results for the year to March 31 slightly ahead of market expectations. The company, which floated last December, lifted turnover 73 per cent to £167.9m while earnings before interest, tax, depreciation and amortisation were £16.1m (£14.3m losses). The gross profit margin before network depreciation almost doubled from 17.7 to 33.9 per cent. Mike Grabiner, chief executive, said revenues from higher margin, advanced services grew 82 per cent. The company had signed networking contracts with holiday group Going Places and consultancy Ernst & Young. It is also to install a new telecoms system for the National Grid, extending the network by a further 1,450km.

Mr Grabiner said Energis intended to apply for a "third generation" mobile phone licence when the necessary radio spectrum was auctioned next year to create a combined fixed and mobile phone company.

COMMENT

British Airways



It is strange to see British Airways only now entering recovery mode. Its US peers have been reporting bumper profits, but are close to their peak. Meanwhile BA saw pre-tax profits, excluding disposal gains, fall to £406m; not a great return on £8.6bn sales. But, of course, it was something of an annus horribilis for BA, with the cabin crew strike and strong pound knocking £325m off the total. Indeed chief executive Robert Ayling, occasional recipient of bouquets of barbed wire, earned some plaudits yesterday for his cost-cutting drive. This year the negatives should turn positive and there is another £250m of savings to come. With economic recovery in Europe kicking in, revenues should pick up speed: BA is going for growth with a 12 per cent capacity increase. All this should secure a profits rebound to £650m-£700m, an implied price/earnings ratio of about 11. After a dismal performance in 1997, the shares should build on their recent tentative recovery.

But while a re-rating looks in order on the back of the cost reform, the discount is unlikely to disappear. Cyclicality, heavy capital spending demands and a wearisome stream of pluses and minuses detract from the earnings quality. BA must hope that its alliance with American Airlines is approved in time to cushion profits against the next downturn. That alliance should also provide a good vehicle for expansion in Asia, notably via the Japanese airline JAL. Meanwhile BA should seize opportunities to form links with sizeable, but temporarily discomfited, south-east Asian carriers.

Creeping control

The minority shareholders in Astec, who felt oppressed by its controlling shareholder Emerson Electric, have not suffered in vain. The "creeper" provision which allows 30-50 per cent stakeholders to sneak control is heading for a Takeover Panel review, which should see it abolished. There is no logic in making an exception to the 30 per cent trigger for launching a full bid. The tiny loss of opportunity to sell an illiquid stock is easily offset by the advantage of stamping on back-door control. The irony is that this change would not have solved the Astec problem since, for technical reasons, it was outside the panel's jurisdiction.

Powerscreen's problems go beyond Matbro

By Robert Wright

Powerscreen International, the troubled Northern Irish engineer, yesterday acknowledged for the first time it expected results for the year to March 1998 to be hit by further problems going beyond its former Matbro subsidiary.

The admission, in a trading statement, that there were problems at Powerscreen's Brown Lenox and Royer subsidiaries goes against statements made by the company since it announced a £46.6m provision for accounting problems at Matbro in January.

Powerscreen's shares fell 23p – 17 per cent – to 110½p. Analysts said they would have fallen further had they not been hit on Tuesday by a large sale. They were 613p before January's warning.

Powerscreen said that, after meeting its auditors, it now expected pre-tax losses for the year to March 1998 to total £65m ($109m), a huge increase on the £10m pre-tax loss predicted in January. The loss is particularly sharp compared with the £40m-£50m pre-tax profit analysts were expecting until January.

Powerscreen was also forced to go back on its previous insistence that losses caused by accounting malpractice occured mainly in the year to March 1998. The company said about £20m of the losses for the past year would be for losses accumulated in previous years.

The results will include a further £2m for Matbro's trading losses between January and its sale in April to John Deere of the US. There will also be a £4m provision for professional fees on the investigation into Matbro, which made tractors.

More surprising, however, were provisions of £11.5m for the write-off of assets, mainly at Brown Lenox and Royer, which make stone crushing equipment. Brown Lenox is thought to be responsible for about half the £20m of hidden losses from previous years, with Matbro responsible for the other half. The year's results will also be hit by a £14m provision for putting accounting policies on a more conservative basis.

Powerscreen said it intended to dispose of businesses outside its profitable core of stone crushing and screening equipment.

The company said the Matbro losses were a result of mispricing of machines, unauthorised discounts offered to customers and inaccurate and misleading recording and discounting of bills of exchange.

Thorn proposes divestments

By Robert Wright

Thorn, the rentals group that includes Radio Rentals, has announced plans to divest itself of all but its core UK operations in an effort to realise its full value.

The proposed sell-offs are the result of a strategic review, announced last October, which concluded there was a gap between the market valuation of the company and the likely valuation of the businesses at sell-off. Thorn will return the cash to shareholders.

The announcements came with Thorn's full-year results and as the company appeared to dampen hopes that continuing takeover talks with a mystery bidder, widely believed to be David and Frederick Barclay, the hotel and newspaper owners, would lead to an offer.

The UK businesses which will remain after the sell-offs were responsible for only 34 per cent of Thorn's turnover last year. The plan to sell the businesses in North and South America, many facing legal action, had already been announced. These accounted for 45 per cent of turnover in the year to March 31.

Steven Marshall, chief executive, indicated that other businesses to be sold could include Thorn's Scandinavian operations, which accounted for 11 per cent of last year's sales and Asia Pacific, with 5 per cent.

The company also announced it would withdraw from a number of activities, including the renting of personal computers in the UK and of furniture in Scandinavia, while trials of credit sale stores in the US would be terminated.

Some analysts were uncertain how to value the UK and American businesses. The UK business lost ground quickly over the past year, while the US business is facing expensive litigation, mainly over its rent-to-own programmes. However, one analyst priced the group at about 220p a share, or £933m


Steven Marshall: reshaping the group David Ahmed

($1.56bn), compared with a current market capitalisation of about £863m.

Thorn made pre-tax profits of £69.6m ($103m) on sales of £1.36bn (£1.56bn). Operating profits of £86.2m (£134m) were reduced by £39.6m of exceptional charges.

Provisions were made for store closures, restructuring, property losses, write-downs of rental assets, year 2000 costs and a new £5.7m provision against loss of a legal case in the US.

EMI chief dismisses speculation about bid talks

By Alice Rawsthorn

Sir Colin Southgate, EMI's chairman, yesterday said he had received no further approaches from prospective predators since breaking off takeover talks with Seagram, the Canadian group which last week clinched a $10.6bn deal to buy PolyGram.

"There's no conversation going on whatsoever," he said. "We're getting on with running the business."

Sir Colin hoped Seagram's decision to buy PolyGram would squash long-running speculation of a bid for EMI, which owns the world's largest music publisher as well as the record companies behind Garth Brooks, Radiohead, The Verve and the Spice Girls.

"It was very unsettling for people in the company to hear us being talked about as if we were up for sale," he said. "We did have a number of conversations with Seagram, but nothing was ever agreed."

Sir Colin dismissed speculation that EMI might attract a bid from a US leveraged buy-out fund, arguing that it would be too expensive. "The funds looked at PolyGram, but the figures didn't add up. One of them called me. They just couldn't do it. Seagram was able to buy PolyGram because there's $250m to $300m of synergistic benefits."

His comments came as EMI reported a fall in profits before tax and exceptionals to £307.1m ($513m) in the year to March 31, against £380.5m, having been hit by the strong pound, the economic downturn in Asia, and higher interest payments. The shares, at 607½p a month ago after Seagram's approach, fell 12p to 520p.

Sir Colin expects to see an improvement in the company's performance this year, reflecting reduced losses in Asia and further financial benefits from its US restructuring. He also claimed he could comfortably combine his new responsibilities as chairman of the Royal Opera House, with his EMI duties.

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Scandinavian side hits Airtours

By John Willman

Shares in Airtours fell sharply yesterday after the UK-based tour operator announced interim losses had almost doubled because of difficulties in its Scandinavian Leisure Group arm.

A first-half loss is expected in this highly seasonal industry which does most of its business in the summer months. But Airtours' pre-tax loss for the six months to March 31 rose from £12.7m to £23.2m ($38.7m) despite improved results in the UK and Canada – taking the shares down 35p to 486½p.

The group said operating difficulties in SLG's Premiair charter airline had knocked £8m off profits – in compensation for passengers and the cost of switching to a new service company. Margins had also been hit in Scandinavia by reduced demand at the end of last summer and excess capacity in the region.

David Crossland, chairman, said he expected these to be one-off events, with action in the industry to reduce capacity.

Turnover for the half year had increased 27 per cent to £1.04bn, helped by the inclusion of the Sun International European businesses in January and a full six months of trading in two new Californian operations.

The interim loss on the UK tour operating subsidiary – Britain's second-largest – fell from £10.1m to £7.2m.

In North America, Airtours is rationalising the back-office operations of its five companies in a single operation based in Toronto.

L&G withdraws from Australia

By Christopher Adams

Legal & General yesterday withdrew from Australia's life assurance market, selling its subsidiary there to locally-based Colonial for A$892m ($600m). The group said it would use the proceeds to underpin its rapid growth in the UK.

The deal will make Colonial, which has A$53bn in assets under management worldwide, Australia's third largest life assurer by premium income after Australian Mutual Provident and National Mutual. It beat off competition from banking groups Westpac and ANZ.

Consolidation in Australia has accelerated and domestic insurers are jostling with foreign competitors like the Prudential and Norwich Union of the UK. Both were thought to have shown an interest in the L&G arm.

In March Norwich Union pulled out of the New Zealand life market, selling its life and asset management business there to Royal & Sun Alliance, the UK-based insurer, for NZ$153.5m ($83.5m).

The price paid for L&G Australia represented 1.9 times its year-end "embedded value" – net assets plus future profits from existing business. Analysts said this was consistent with the high values placed on other life assurers. Colonial expects cost savings of A$50m from combining L&G's business with its own. It plans a 1-for-5 rights issue and a placing to fund the acquisition.

L&G will record an exceptional gain of £316m. Its shares fell 15p to 675p.

RESULTS

	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Airtours — 6 mths to Mar 31	1,038	(818.4)	23.2L	(12.7L)	4.3L†	(2.73L)	1.5	July 1	1.33*	-	6.66*
Alders — 6 mths to Mar 31	287.7	(287.6)	16.9	(16)	14.8	(15)	3.4	Aug 6	3	-	8
Anglian Water — Yr to Mar 31	850.1	(837.1)	274.2♥	(208♠)	41.7†‡	(68.6)	27.5	July 31	24.3	39	34.5
BBS Design — 8 mths to Dec 31‡‡	0.563	(0.967)	0.009	(0.059L)	0.11	(0.71L)	nil	-	nil	nil	nil
Birchin Φ — 6 mths to Mar 31	2.93	(0.188)	0.282	(0.293L)	0.05†	(0.24L)	-	-	-	-	-
Birmingham City Φ — 6 mths to Feb 28	4.72	(4.59)	2.62L	(2.68)	-	(-)	-	-	-	-	-
British Airways — Yr to Mar 31	8,642	(8,359)	580♥	(640♥)	44.7	(55.7)	11.9	July 31	10.8	16.6	15.05
Brockhampton — Yr to Mar 31	28.1	(27.7)	7.95♠	(8.6♥)	12.3‡	(11.6)	3.2	Aug 13	2.75	4.8	4
Crabtree — 6 mths to Mar 31	24.1	(22.9)	0.83	(0.448)	2.9	(1.5)	1	Aug 10	1	-	3
Donegal Cream ♣ — Yr to Dec 31	50.6	(45.8)	2.5	(2.16)	25.2	(20.9)	-	-	-	-	-
Eidos — Yr to Mar 31★	137.2	(75.5)	16.5♠	(6.83L♥)	64.1†	(59.5L)	-	-	-	-	-
EMI — Yr to Mar 31☆	3,309	(3,390)	365.1♥	(283.9♠)	28.2‡	(13.4§)	11.75大	Oct 2	11§	16大	15§
Energis — Yr to Mar 31	167.1	(97.1)	62L	(77.8L)	28L	(31L)	-	-	-	-	-
Ennex Intl $ — Yr to Dec 31	-	(-)	1.31L	(5.17L)	1.44L	(6.15L)	-	-	-	-	-
Friends I&S — 42 wks to Feb 17 §§	15.6	(20.5)	3.39♠	(6.89)	5.43	(14.4)	nil	-	6.15	5.89	9
John Lewis Hunger Φ — 6 mths to Feb 28	1.36	(1.02)	0.162♠	(0.176)	0.09†	(0.12)	-	-	-	-	0.106
Lawrie Φ — Yr to Dec 31	232.5	(210.9)	26.4♥	(14.4♥)	699.23	(338.07)	79大	July 8	74	98	93
Ormonde Mining ♣ — 9 mths to Mar 31	-	(-)	0.006	(0.011)	0.02	(0.04)	-	-	-	-	-
Thorn — Yr to Mar 31	1,358	(1,560)	69.6♠	(102.9♠)	8.5‡	(9.7)	9.6	Oct 2	9.6	13.3	13.3

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Emerging — 6 mths to Mar 31	123.93	(122.68)	1.95L	(2.1L)	1.04L	(1.12L)	-	-	-	-	nil
Shires Income — Yr to Mar 31★	475.7	(325)	5.72	(4.53)	20.25	(16.23)	4.9	July 31	4.3	17.5	16.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡‡‡‡‡On reduced capital. ΦAim stock. *Adjusted for scrip issue. ‡Includes windfall tax. ★Comparatives restated. ☆Comparatives exclude Thorn, demerged in Aug 1996. §Restated. 大Foreign income dividend. ‡‡Comparatives for 12 mths to April 30 1997. ♣Irish currency. §§Comparatives for 12 mths to April 30. $US currency.

EURO PRICES

EQUITIES

Continent suffers sharp falls

EUROPEAN OVERVIEW

By Simon Davies, Capital Markets Editor

Pan-European stockmarkets came under attack from all fronts yesterday. Overnight weakness on Wall Street combined with collapsing markets in Asia and Eastern Europe to generate sharp falls throughout the continent.

The FTSE Eurotop 100 index fell 62.8 or 2.18 per cent to 2,812.42, and the broader Eurotop 300 index fell 26.06 points to 1,226.91. The Ebloc 100 index, which only includes stocks from the future euro zone, fell 2.78 per cent.

Continental European bond markets benefited initially from a flight to safety into US Treasury bonds, but ended mostly unchanged, and analysts said it would take an interest rate cut to push yields much lower.

In pan-European equity markets, the declines were evenly spread across the sectors, although financial stocks were hit hardest, with the sector losing 2.59 per cent.

George Hodgson, European equity strategist at ABN Amro, said: "You would have thought the first line of attack would have been the banking sector, and it is not off as much as I would have expected. Other vulnerable sectors could be oil, steel, and lower value-added industrials."

Asian stock markets fell sharply, but it was Russia that raised the most concern. The stock market fell another 11 per cent, and interest rates were hiked by 100 percentage points in a desperate measure to shore up the financial markets.

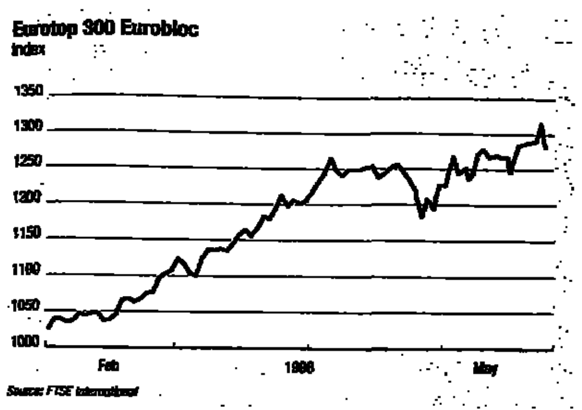
Some analysts suggested that any contagion through eastern Europe could feed through into pan-European earnings, in the same way as the Asian slowdown is now hurting US earnings forecasts.

German auto stocks were hit hard, with BMW down Ecu 24.8 to Ecu 918.82 and Volkswagen down Ecu 31.9 to Ecu 739.12. Daimler Benz fared slightly better following an upbeat annual general meeting, and its shares fell Ecu 2 to Ecu 98.99.

The Belgian bank group Générale de Banque continued to benefit from its rival bids, with its shares rising another Ecu 6.3 to Ecu 667.17.

The information technology sector fell sharply. SAP lost Ecu 26.7 to Ecu 484.84.

Eurotop 300 Eurobloc
Index



■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.760	95.760	+0.005	95.760	95.740	1199	12088
Sep	95.800	95.830	+0.025	95.830	95.780	611	16824
Dec	95.950	95.990	+0.055	95.990	95.950	198	7168
Mar	95.900	95.910	+0.060	95.900	95.900	24	5164

■ THREE MONTH EURO OPTIONS (LIFFE) Ecu1m points of 100%

Strike Price	Calls Jun	Calls Jul	Calls Aug	Calls Sep	Puts Jun	Puts Jul	Puts Aug	Puts Sep
96000	0	0	0.010	0.020	0.240	0.170	0.180	0.190
96125	0				0.365			

Est. vol. total, Calls 0 Puts 0 Previous day's open int., Calls 0 Puts 0

■ FTSE EUROTOP 100 INDEX FUTURES (LIFFE) Ecu20 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	2808.0	2815.0	-70.0	2819.0	2800.0	343	709
Sep	-	2841.0	-70.0	-	-	0	5

■ EURO STYLE FTSE EUROTOP 100 INDEX OPTION (AEX) Ecu10 per index point

	2725 C	2725 P	2750 C	2750 P	2775 C	2775 P	2800 C	2800 P	2825 C	2825 P	2850 C	2850 P	2875 C	2875 P	2900 C	2900 P
Jun	124	30	108	42	89	49	76	59	60	71	49	84	39	99	31	115
Jul	163	69	148	77	129	85	115	95	101	107	880	120	77	133	68	148

Est vol total:20 Prev day's open interest total: 604. Premiums shown are based on settlement prices.

OTHER INDICES

	May 27	May 26	May 25	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3326.79	3388.92	3369.40	3396.00	2574.51	3398	2976.42
DJ Euro Stx 50	3340.51	3424.55	3422.42	3424.55	2466.81	3424.55	2865.52
MSCI Europe	1248.24*	1243.55	1232.28	1248.34	968.50	1248.24	510.78

Source: Extel/part of FT Information. *Subject to revision next day. (n) unavailable.

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

May 27 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1226.91	-2.08	-26.06	1.98	13.60	1250.60
FTSE Eurotop 100	2812.42	-2.18	-62.80	2.05	15.61	998.97
FTSE Ebloc 100	1026.73	-2.78	-29.41	1.65	6.67	1033.49
FTSE Eurotop 300 Regions						
Eurobloc	1281.25	-2.69	-35.44	1.62	10.91	1297.51
UK	1127.29	-1.49	-17.00	2.84	18.70	1165.02
Europe Ex-Eurobloc	1183.64	-1.46	-17.54	2.34	15.17	1211.53
Europe Ex-UK	1284.29	-2.37	-31.22	1.55	10.71	1298.70
FTSE Eurotop Industry Sectors						
RESOURCES	1025.77	-1.50	-15.58	2.74	15.70	1056.43
Extractive Industries	870.50	-3.48	-31.41	2.97	0.00	870.50
Oil, Integrated	986.52	-1.41	-14.10	2.74	8.77	995.31
Oil, Exploration & Prod	1062.25	-1.34	-14.38	2.28	0.00	1062.25
GENERAL INDUSTRIES	1218.86	-2.44	-30.52	1.84	11.19	1233.90
Construction	1022.09	-1.25	-12.96	2.93	0.00	1022.09
Building Matls & Merchs	1086.98	-1.05	-11.59	2.44	0.00	1086.98
Chemicals	1018.39	-1.70	-17.62	2.18	12.96	1031.61
Diversified Industrials	1012.26	-2.92	-30.45	1.87	4.24	1016.50
Electronic & Elect Equip	1050.60	-2.78	-30.03	1.73	0.00	1050.60
Engineering	1038.81	-2.56	-27.29	2.23	1.56	1040.37
Paper, Pckg & Printing	1011.62	-1.19	-12.23	2.31	0.00	1011.62
CONSUMER GOODS	1156.05	-1.64	-19.29	1.61	10.27	1179.06
Automobiles	1077.46	-2.70	-29.95	0.90	1.98	1079.47
Alcoholic Beverages	989.26	-2.56	-25.94	2.34	1.86	991.14
Food Producers	1030.31	-1.17	-12.16	1.58	3.69	1034.06
Household Goods & Texts	1048.11	-1.64	-17.52	1.17	0.72	1048.85
Healthcare	968.54	-1.28	-12.52	2.37	0.00	968.54
Pharmaceuticals	986.70	-1.69	-16.96	1.35	1.03	987.72
Tobacco	964.08	-1.73	-16.98	4.40	0.00	964.08
SERVICES	1177.00	-1.45	-17.38	1.92	10.88	1197.59
Distribution	1023.33	-0.71	-7.30	0.96	2.70	1026.09
Leisure & Hotels	1005.44	-0.19	-1.91	2.40	0.00	1005.44
Media	1043.58	-1.13	-11.89	2.20	1.29	1044.90
Retailers, Food	995.54	-1.01	-10.14	2.04	7.01	1002.58
Retailers, General	1023.02	-0.87	-8.95	2.24	6.22	1029.21
Telecommunications	1010.35	-2.04	-21.03	1.68	2.31	1012.69
Breweries, Pubs & Rests	951.79	-0.70	-6.73	2.82	4.91	956.68
Support Services	1020.98	-0.19	-1.94	1.23	4.59	1025.74
Transport	1021.39	-2.31	-24.19	2.53	0.59	1022.00
Information Technology	1043.23	-4.19	-45.60	0.39	2.23	1045.60
UTILITIES	1285.94	-2.46	-32.41	3.39	28.78	1330.53
Electricity	976.10	-2.64	-26.47	3.55	5.76	981.74
Gas Distribution	993.99	-2.85	-29.17	1.85	83.72	1084.42
Water	972.72	-0.75	-7.36	5.18	0.00	972.72
FINANCIALS	1352.88	-2.59	-35.95	1.92	17.06	1376.27
Banks,Retail	981.96	-2.77	-28.00	2.13	6.39	988.29
Insurance	987.08	-2.42	-24.48	1.34	3.70	990.77*
Life Insurance	1028.68	-1.64	-17.16	2.04	3.19	1032.09
Other Financial	991.63	-3.47	-35.70	1.99	6.00	997.57
Investment Companies	1099.43	-1.69	-18.87	2.04	10.64	1109.99
Property	912.22	-1.59	-14.74	2.90	0.00	912.22

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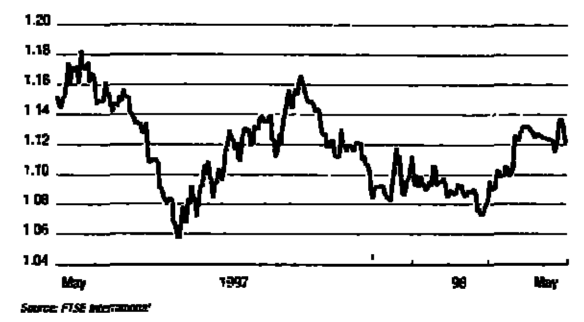
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

May 27	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.070675	+0.0043	+0.03	+0.0064	+0.05
Belgium	BEF	41.248658	+0.0294	+0.07	+0.0047	+0.01
Czech Republic	CZK	37.558727	+0.9207	+2.51	+0.9057	+2.47
Denmark	DKK	7.614558	+0.0007	+0.01	-0.0039	-0.05
Finland	FIM	6.076741	+0.0020	+0.03	+0.0028	+0.05
France	FRF	6.704170	-0.0001	+0.00	+0.0005	+0.01
Germany	DEM	1.999890	+0.0006	+0.03	+0.0010	+0.05
Greece	GRD	344.951025	+2.0571	+0.60	-0.5420	-0.16
Hungary	HUF	239.017736	+0.4890	+0.21	+0.6998	+0.29
Ireland	IEP	0.793658	-0.0002	-0.02	-0.0009	-0.11
Italy	ITL	1970.226735	-0.8265	-0.04	-0.7280	-0.04
Luxembourg	LUF	41.248658	+0.0294	+0.07	+0.0047	+0.01
Netherlands	NLG	2.253355	+0.0004	+0.02	+0.0007	+0.03
Norway	NOK	8.494061	+0.0589	+0.70	+0.0641	+0.76
Poland	PLN	3.967728	+0.0826	+2.13	+0.0832	+2.14
Portugal	PTE	204.728035	-0.0201	-0.01	-0.0688	-0.03
Romania	ROL	9543.312055	-44.3153	-0.46	-58.6439	-0.62
Russia	RUB	6.945488	-0.0312	-0.45	-0.0094	-0.14
Slovakia	SKK	38.727720	+0.1392	+0.36	+0.1680	+0.44
Spain	ESP	169.647033	-0.1473	-0.09	-0.2736	-0.16
Sweden	SEK	8.788153	+0.0371	+0.42	+0.0846	+0.97
Switzerland	CHF	1.651987	-0.0090	-0.54	-0.0145	-0.87
United Kingdom	GBP	0.688151	-0.0012	-0.18	-0.0038	-0.55
ECU	ECU	1.014773	-0.0003	-0.03	-0.0002	-0.02
Americas						
Brazil	BRL	1.291560	-0.0091	-0.70	-0.0056	-0.43
Canada	CAD	1.634794	-0.0069	-0.42	-0.0019	-0.12
Mexico	MXN	9.967023	+0.1639	+1.67	+0.2500	+2.57
United States	USD	1.122412	-0.0057	-0.50	-0.0068	-0.60
Pacific/Middle East/Africa						
Australia	AUD	1.806074	-0.0090	-0.50	+0.0007	+0.04
Hong Kong	HKD	8.697013	-0.0423	-0.48	-0.0541	-0.62
Japan	JPY	154.449568	-1.1421	-0.73	+0.7390	+0.48
Singapore	SGD	1.871623	+0.0052	+0.28	+0.0073	+0.39
South Africa	ZAR	5.786036	+0.0176	+0.30	+0.0230	+0.40

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. Currency weightings as follows: DEM 0.3354, FRF 0.2217, ITL 0.1823, NLG 0.0577, BEF 0.0386, ESP 0.0848, IEP 0.0176, PTE 0.0155, ATS 0.0328, FIM 0.0187

Synthetic Euro against the dollar
$ per euro



EUROZONE CURRENCY CONVERGENCE

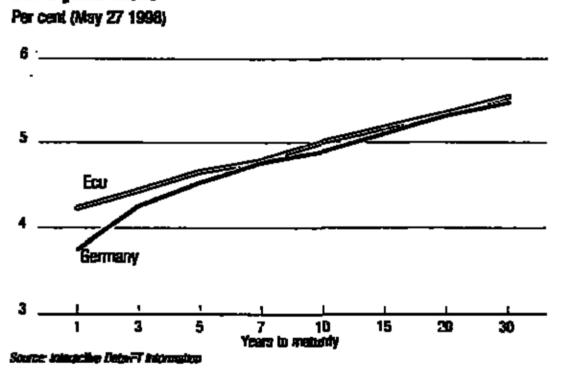
Bilateral conversion rates against the D-Mark

May 27	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0364	+0.01	+0.02	7.0389	3.79	+0.06
Belgium	20.6255	20.6275	+0.01	+0.05	20.6362	3.8	+0.07
France	3.35386	3.3526	-0.04	+0.00	3.3522	3.71	-0.02
Finland	3.04001	3.0388	-0.04	-0.04	3.0413	3.87	+0.14
Ireland	0.402676	0.3969	-1.43	-1.28	0.4017	5.78	+2.05
Italy	990.002	985.2661	-0.49	-0.39	991.0888	4.73	+1.00
Luxembourg	20.6255	20.6275	+0.01	+0.05	20.6362	3.8	+0.07
Netherlands	1.12674	1.1269	+0.01	+0.03	1.1268	3.71	-0.02
Portugal	102.505	102.3799	-0.12	-0.04	102.6578	4.19	+0.46
Spain	85.0722	84.8367	-0.28	-0.07	85.0756	4.21	+0.48
Germany	1		+0.00	+0.00		3.73	+0.00

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes, forward interest rates are those implied by these forward exchange rates; Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (May 27 1998)



EUROZONE CORPORATE BONDS

May 27	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	105.530	5.02	-0.01	-0.18	+0.02
France (Rep of)	04/08	5.250	N/A	102.370	4.94	+0.00	-0.18	-0.06
Italy (Rep of)	05/08	5.000	AA	99.720	5.04	-0.01	-0.27	+0.04
Portugal (Rep of)	06/08	5.375	AA-	102.390	5.06	-0.01	-0.17	+0.06
Euro issues								
Abbey Natl Treas Srv	02/03	4.875	AA	100.560	4.73	-0.02	-0.05	+0.08
Gen Electric Cap Crp	10/04	5.500	AAA	103.430	4.85	-0.03	-0.16	+0.11
Oest Kontrollbank	04/08	5.250	AAA	101.330	5.07	-0.02	-0.23	+0.07
Cred Local de France	04/08	5.250	AA+	100.090	5.24	+0.01	-0.21	+0.24
Ecu issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.250	4.56	-0.01	-0.09	+0.13
Cred Foncier France	03/04	8.375	A	115.060	5.28	-0.03	-0.23	+0.54
Euro Inv Bank	04/04	5.250	AAA	103.010	4.65	-0.01	-0.22	-0.09
ABN Amro Hldg. NV	04/07	6.375	AA-	107.450	5.30	-0.01	-0.24	+0.36

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99. Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99.

GOVERNMENT BOND SPREADS vs ECU

May 27	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"Ins"						
Austria	-0.12	-0.07	+0.06	-0.01	-0.02	+0.01
Belgium	-0.12	-0.02	+0.08	+0.03	+0.02	+0.04
Finland	-0.17	-0.01	+0.05	+0.00	-0.34	-0.54
France	-0.20	-0.11	-0.07	-0.05	-0.05	-0.06
Germany	-0.28	-0.13	-0.02	-0.12	-0.03	-0.07
Ireland	+0.59	+0.12	+0.14	+0.12	+0.10	+0.22
Italy	+0.23	+0.19	+0.21	+0.20	+0.21	+0.15
Luxembourg	-0.12	-0.02	+0.08	+0.03	+0.02	+0.04
Netherlands	-0.18	-0.10	-0.03	-0.07	-0.04	-0.06
Portugal	-0.01	+0.05	+0.10	+0.09	+0.28	+0.37
Spain	-0.09	+0.01	+0.12	+0.10	+0.16	+0.32
"OUTs"						
Denmark	+0.33	+0.24	+0.26	+0.17	+0.05	+0.19
Greece	+5.90	+4.27	+3.44	+2.81	+2.47	+2.27
Sweden	+0.23	+0.11	+0.15	+0.09	+0.06	-0.14
UK	+2.14	+1.28	+1.12	+0.75	+0.40	+0.07

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread

EUROZONE CREDIT SPREADS vs ECU

May 27	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	Spread mth ago
KFW	AAA	01/09	5.000	DEM	-0.01	+0.01	+0.12
France Telcom	AA+	11/06	6.250	FRF	+0.13	+0.18	+0.30
Halifax	AA	07/07	5.625	DEM	+0.18	+0.20	+0.34
Ing Bank NV	AA-	01/08	5.500	NLG	+0.17	+0.18	+0.31
Bayer Hypo W Bk	A+	02/02	6.750	ITL	+0.27	+0.28	+0.91
Cred Foncier	A	02/03	7.250	DEM	+0.27	+0.33	+0.94
Thomson-Brandt Intl	A-	03/04	6.375	FRF	+0.29	+0.31	+0.63
Generale des Eaux	BBB+	03/04	6.250	FRF	+0.26	+0.28	+0.62
Bank of China	BBB	07/99	7.125	DEM	+0.78	+0.78	+0.66
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	+0.74	+0.59	+1.42
Korea Dev Bank	B+	11/02	5.625	FRF	+4.41	+4.43	+4.78

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge + or -	Mkt cap Ecu(bn)	Vol (m)	Yld
ALCOHOLIC BEVERAGES					
AUTOMOBILES					
BANKS RETAIL					
BREWERIES, PUBS & RESTAURANTS					
BUILDING MATERIALS & MERCHANTS					
CHEMICALS					
CONSTRUCTION					
DISTRIBUTORS					
DIVERSIFIED INDUSTRIALS					
ELECTRICITY					
ELECTRONIC & ELECTRICAL EQPT.					
ENGINEERING					
EXTRACTIVE INDUSTRIES					
FOOD PRODUCERS					
GAS DISTRIBUTION					
HEALTH CARE					
HOUSEHOLD GOODS & TEXTILES					
INFORMATION TECHNOLOGY					
INSURANCE					
INVESTMENT COMPANIES					
LEISURE & HOTELS					
LIFE INSURANCE					
MEDIA					
OIL, EXPLORATION & PRODUCTION					
OIL, INTEGRATED					
OTHER FINANCIAL					
PAPER PACKAGING & PRINTING					
PHARMACEUTICALS					
PROPERTY					
RETAILERS, FOOD					
RETAILERS, GENERAL					
SUPPORT SERVICES					
TELECOMMUNICATIONS					
TOBACCO					
TRANSPORT					
WATER					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes: Prices, data and market capitalisations supplied by FTSE International. Market capitalisation figures are based on shares used in index calculation. Shares are not counted where foreign ownership restrictions apply. Market caps may include preference shares. [illegible]

INTERNATIONAL CAPITAL MARKETS

Flight to quality lifts US Treasury prices

GOVERNMENT BONDS

By Jeremy Grant in London and John Labate in New York

European markets ended mixed but grew jumpy yesterday as global equities tumbled and the contagion effect from Asian economic worries spilled over into other emerging markets, primarily Russia.

Firmer US Treasuries overnight pushed bond prices higher at the open in Europe, as did weaker commodity prices and continued dollar strength.

However, bonds failed to ignite as some had expected, falling back towards the close as core markets recoiled from challenging further key technical yield levels.

In addition, US Treasuries and currencies benefited most from flight to quality flows, bond strategists said.

"At these low yield levels, we will have to force people into talking about rate cuts. You'd need a much bigger [emerging market and equity] crisis than we're seeing now to really get the markets to move significantly," said Kit Juckes, head of bond and currency strategy at NatWest.

In Russia, Treasury bill yields jumped as confidence in the economy took a battering after Moscow tripled its key interest rate to 150 per cent. Short-term government security yields soared by 20 percentage points to 80-84 per cent in an extra market session.

In spite of comments by International Monetary Fund officials that Russia was not in an economic crisis, currencies fell in east Europe and US long bond yields swept lower as investors hunted for quality destinations for their money.

Analysts predicted that German bund yields could head significantly lower – to 4.5-4.75 per cent – if emerging market fears worsened.

Events in Asia reinforced such views, with Hong Kong's economic czars admitting the territory had experienced a "very rough first quarter", with worse to come.

"This is just raising fears that we're getting more contagion effects out of emerging markets. It's probably justified. I think there are substantial concerns over some east Asian economies," said Robert Blake, economist at Citibank.

In the UK, however, gilts fell on hawkish inflation comments by a Bank of England council member, signalling that the interest rate debate is still not resolved.

US TREASURIES continued to rise as the dollar remained firm against the yen. By early afternoon the benchmark 30-year bond had gained ¼ to 104¼, yielding 5.821 per cent.

Shorter-term issues also advanced. The 10-year note was up ¼ to 100⅝, yielding 5.542 per cent while the two-year note rose $\frac{1}{32}$ to 100$\frac{1}{32}$, yielding 5.536 per cent.

Although there were no significant economic releases yesterday, prices advanced ahead of today's reports, which will include first-quarter GDP, durable goods sales and first-time unemployment claims.

On Friday new figures on personal income and consumption are expected.

"With the backdrop of a stronger economy and the Fed leaning toward tightening there's only so far we can go on the upside," said Terrence Piggott, head of government trading at Daiwa Securities America.

Most analysts estimate GDP for the first quarter will be revised upward slightly to 4.4 per cent, and that durable goods sales will have risen by 0.8 per cent.

GERMAN BUNDS started firmly on the back of gains in US Treasuries. The short end of the yield curve was helped by Bundesbank president Hans Tietmeyer saying "no major surprises" were expected from today's bank council meeting.

"You can see how much uncertainty [on the interest rate outlook] is still priced into the short end. It still has some potential," said one bund analyst at a European investment house.

However the June 10-year bund future lost initial gains and settled 0.30 basis points higher at 107.73 after investors sold off on fears over the situation in Russia, where German institutions have significant exposures.

Traders were looking for bunds to test the key 108 basis point barrier but saw little on the domestic front to spark activity.

In the UK, short sterling and GILTS slipped on comments by Bank of England economist Mervyn King that earnings growth was still a worry and that the risk remains of "stubbornly buoyant" domestic consumption, in spite of recent soft retail sales figures.

By mid-session, the June gilt future was down 6 basis points at 108.99, off an earlier high of 109.19.

Volume was heavy with 180,000 contracts traded by the close, which saw the June contract settle at 109.01, down 0.20 basis points.

The December short sterling future closed 3 basis points down at 92.78, largely ruling out any rate change before the end of the year.

TMCC raises DM750m with seven-year offering

INTERNATIONAL BONDS

By Edward Luce and Simon Davies

Toyota Motors Credit Corp yesterday demonstrated that not all was turbulence out of Asia with a well-priced DM750m offering. The bond, lead-managed by Barclays Capital and Paribas, was launched in the relatively unusual maturity of seven years.

An official at Paribas said this was the result of wide consultations with investors, who expressed a preference for the shorter maturity because of the tiny differential between the yield on seven and 10-year German government bonds.

This, said the official, demonstrated TMCC's commitment to an investor-friendly borrowing strategy.

In addition, TMCC consulted widely on its choice of currency. "We could have opted for another currency but the D-Mark is still considered the most reliable," said the banker.

The bond, priced to yield 15 basis points over the equivalent bund, was distributed mostly to continental European investors, including French funds. It provided a spread pick-up of 4 to 8 basis points to other AAA rated borrowers in the same maturity.

AMOCO, the US energy group, returned to the eurobond market for the first time since 1992, with an innovative $500m issue, yielding 43 basis points over the May 2008 US Treasury.

The issue is a make-whole call bond, where the bond is callable after one year at the higher of par or the equivalent yield to the May 2008.

A senior banker at Morgan Stanley, lead book-runner, said the deal had met strong demand from Swiss investors, but admitted it was launched in "sub-optimal market conditions". The deal was priced at the wider end of its indicated range.

With corporate spreads coming under pressure yesterday, another syndicate manager said "the weakness of the market has hurt this transaction".

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Amoco Co(a)	500	6.00	99.581R	Jun 2008	0.325R	+43(5⅝%-May08)	Morgan Stanley DW
Alcatel Alsthom‡	500	(b)	100.00R	Undated	0.1675R	-	JP Morgan
BOS Intl(Australia) Ltd‡★	200	(c)	100.018R	Jun 1999	0.05R	-	Salomon Brothers Intl
Bendigo Bank Ltd‡	100	(d)	99.931	Jun 2001	0.175	-	Deutsche Bank
Barclays Capital Cayman(f)§	50	(1-1½)	100.00	Jul 2005	0.50	-	Barclays Capital
D-MARKS							
TMCC	750	4.75	99.169R	Jun 2005	0.30R	+15(6⅞%-May05)	Barclays Capital/Paribas
TMBT, Class 1A(g)‡	200	(g1.)	100.00R	Jul 2001	0.25R	-	SBC Warburg Dillon Read
TMBT, Class 2A(g)‡	100	(g2.)	100.00R	Jul 2003	0.25R	-	SBC Warburg Dillon Read
Oest Volksbank(h)	100	(h1.)	101.30	Jun 2003	undiscl	-	DG Bank
STERLING							
Nth British Housing Assoc(j)	100	6.625(j)#	100.521R	Sep 2038	0.625R	+87(8%-2021)	Dresdner KB
World Bank(m)★	50	6.12	100.00	Jul 2000	1.01	-	IBJ International
FRENCH FRANCS							
Dresdner Finance	2bn	5.25(s)	99.42R	Jan 2009	0.375R	+25(i)	Dresdner KB
Caja de Madrid	1.5bn	4.75	99.727R	Jun 2004	0.30R	+19(i)	CAI
SWISS FRANCS							
Province of Ontario	250	2.50	101	Jul 2003	2.00	-	CSFB/Merrill Lynch
EUROS(e)							
BIL(k)★	50	6.00	100.00	Jun 2000	none	-	BIL
LUXEMBOURG FRANCS							
Genfinance Luxembourg	2bn	9.50	102.10	Jun 2000	2.00	-	BGL
GREEK DRACHMAS							
World Bank	10bn	8.00	101.35	Jun 2001	1.60	-	CSFB

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from 9/6/99 flat to Treasuries. b) 3-mth Libor +10bp to Jun 00, then remarketed at fixed rate if not called at par. c) 3-mth Libor –6.25bp. d) 3-mth Libor +37.5bp. e) Payments in Ecu prior to Emu. f) Exchangeable into Roche shares. Fixed today. Callable from Jul 00 subject to 1 yr of 130% protection at par. g) Tell Mortgage Backed Trust. g1) 3-mth Libor +15bp. g2) 3-mth Libor +17bp. h) Callable from Jun 00 at par. h1) Respective annual coupons: 4⅛, 4¼, 4⅞, 5, 5⅛. i) Over interpolated yield. j) Callable from Sep 33 at par. k) Redeemed at par or Allianz shares. Fixing June 19 at 95% of market. l) Long first coupon. m) Quarterly coupons,long last. s) Short first coupon.

NEWS DIGEST

SECURITISATION

SBC launches first Swiss mortgage-backed bond

Swiss Banking Corporation yesterday launched Switzerland's first ever mortgage-backed bond in a DM314m offering. SBC said the four-tranche bond, which was rated at AAA on the first two portions and A/A2 on the second two, was the first of what it planned to be quarterly issues of mortgage-backed bonds. An official at SBC said the bank expected the quarterly offerings to total about DM750m.

The bank, which has SFr18bn of mortgages on its books, said it was part of a drive to improve its return on capital. Credit Suisse, the other large Swiss bank, is also thought to be looking at securitising its future mortgages.

Unlike less regulated markets, Swiss authorities do not permit banks to securitise mortgages without the express permission of the borrowers. SBC is, therefore, unable to securitise most of the existing mortgages on its books. "We plan to make it a standard for clients to sign new mortgages permitting their securitisation," said an official.

Yesterday's issue was split between three-year and five-year offerings and two smaller subordinated tranches. The senior tranches were launched at margins of 15 and 17 basis points over Libor, respectively.

Bondholders will not have the right to sue for default if the principal has not been repaid by the end of the bond's maturity. Instead the life of the bond, which has been packaged in a "soft bullet" format, will be extended if full repayment has not taken place.

Officials say the bond has been packaged to look more like a securitisation of credit card receivables than a standard mortgage-backed issue. **Edward Luce**

SYNDICATED LOANS

Support for Texas Utilities

The $11bn syndicated loan to fund Texas Utilities' acquisition of The Energy Group has closed with strong support from a syndicate of 48 international banks.

Peter Gleysteen, head of global syndicated finance at Chase, one of the three lead banks, said: "This is proof positive of the overall health and depth of liquidity of the global bank market for qualified borrowers in well structured deals." The other lead managers were Lehman Brothers and Merrill Lynch.

It was a complex transaction, with six bank facilities for four separate borrowers, ranging from Texas itself to the UK operating companies. It was also the largest ever broadly syndicated loan for a European acquisition.

The core sub-underwriting banks had committed to taking $500m each of the loan, but demand was sufficiently strong that sources said they had been allocated less than $350m.

The deal has come at a difficult time for the syndicated loan market, with the Japanese banks substantially withdrawing, and several European banks also reducing their participation. A number of deals have struggled so far this year, but bankers said the Texas loan was "priced to go". **Simon Davies**

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

May 27	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.7948	4.86	–0.08	–0.13	–0.04	–1.03
	10/07	10.000	133.2091	5.39	–0.13	–0.18	–0.22	–2.15
Austria	08/99	7.000	103.6100	4.07	–0.05	–0.08	–0.08	+0.10
	07/07	5.625	104.7700	4.98	-	–0.05	–0.14	–0.96
Belgium	01/00	4.000	99.8500	4.08	–0.07	–0.10	–0.15	+0.34
	03/07	6.250	108.8300	4.97	–0.01	–0.07	–0.11	–1.03
Canada	09/99	4.750	99.4900	5.16	–0.01	+0.04	–0.01	+0.49
	06/07	7.250	113.5000	5.33	–0.02	–0.01	–0.11	–1.28
Denmark	12/99	6.000	101.8955	4.66	+0.06	–0.01	+0.15	+0.86
	11/07	7.000	113.4400	5.16	+0.02	–0.08	–0.13	–1.24
Finland	01/99	11.000	104.3136	3.75	–0.09	–0.09	–0.13	–0.03
	04/08	7.250	115.0450	4.90	–0.03	–0.06	–0.10	–1.38
France	01/00	4.000	99.9200	4.04	–0.03	–0.03	–0.11	+0.22
	10/04	6.750	111.3900	4.65	–0.02	–0.07	–0.14	–0.73
	10/07	5.500	104.3900	4.90	–0.01	–0.06	–0.14	–0.90
	10/25	6.000	107.6700	5.45	-	–0.06	–0.11	–1.24
Germany	09/99	4.000	100.1200	3.88	–0.05	–0.06	–0.12	+0.31
	11/04	7.500	115.2100	4.70	–0.02	–0.07	–0.15	–0.71
	07/07	6.000	107.9600	4.89	–0.01	–0.08	–0.15	–1.02
	07/27	6.500	115.0800	5.45	-	–0.08	–0.12	–1.25
Ireland	04/99	6.250	100.8400	5.18	+0.01	+0.07	+0.04	–0.77
	08/06	8.000	118.9800	5.11	-	–0.06	–0.07	–1.58
Italy	05/00	6.000	102.7500	4.51	–0.02	–0.02	–0.12	–1.89
	05/02	6.250	105.5300	4.70	–0.02	–0.05	–0.15	–2.02
	07/07	6.750	111.9100	5.09	-	–0.04	–0.13	–2.17
	11/26	7.250	123.2500	5.80	-	–0.04	–0.09	–2.32
Japan	03/00	6.400	110.7300	0.40	+0.03	–0.07	–0.11	–0.79
	12/02	4.800	117.5200	0.86	+0.02	–0.04	–0.22	–1.23
	09/05	3.000	111.7800	1.30	+0.01	–0.04	–0.25	–1.35
	09/17	3.000	113.3700	2.15	+0.01	–0.03	–0.26	–1.21
Netherlands	11/99	7.500	104.7000	4.08	+0.02	–0.01	–0.06	+0.28
	02/07	5.750	106.1200	4.87	-	–0.05	–0.14	–0.91
New Zealand	02/00	6.500	98.5750	7.39	–0.03	–0.17	–0.28	+0.13
	11/06	8.000	109.5416	6.47	–0.06	–0.20	–0.33	–1.10
Norway	01/99	9.000	102.4910	5.00	+0.11	+0.36	+0.51	+0.97
	01/07	6.750	108.0300	5.55	+0.03	+0.11	+0.14	–0.57
Portugal	03/99	8.500	103.3300	4.19	+0.01	–0.05	-	–1.13
	02/07	6.625	110.9600	5.04	–0.01	–0.07	–0.11	–1.36
Spain	07/99	7.400	103.6200	4.13	–0.07	–0.10	–0.18	–0.96
	03/07	7.350	116.1500	5.04	+0.01	–0.05	–0.11	–1.53
Sweden	01/99	11.000	103.9928	4.40	–0.06	–0.19	–0.30	–0.48
	08/07	8.000	121.2820	5.05	–0.02	–0.10	–0.25	–1.98
Switzerland	03/00	5.000	105.4300	1.86	–0.03	–0.05	–0.10	+0.28
	06/07	4.500	112.2400	2.94	–0.02	–0.10	–0.21	–0.52
UK	08/99	6.000	99.2344	6.68	+0.01	–0.09	-	–0.15
	11/04	6.750	104.8016	5.89	-	–0.13	–0.15	–1.26
	12/07	7.250	110.7422	5.77	-	–0.12	–0.15	–1.44
	06/21	8.000	129.1563	5.71	+0.01	–0.11	–0.13	–1.57
US	10/99	5.625	100.0700	5.57	–0.07	–0.01	–0.14	–0.71
	11/04	7.875	112.1800	5.60	–0.07	–0.08	–0.25	–1.03
	08/07	6.125	103.5700	5.62	–0.07	–0.08	–0.24	–1.17
	08/27	6.375	106.9770	5.87	–0.03	–0.07	–0.23	–1.16
ECU	01/00	4.000	99.6400	4.22	-	+0.01	–0.01	–0.07
	04/07	5.500	104.0000	4.93	–0.01	–0.06	–0.15	–1.35

London closing. *New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

May 27	Bid Yield	Spread vs Bonds	Spread vs T-Bonds
Australia	5.39	+0.51	–0.15
Austria	4.99	+0.11	–0.55
Belgium	5.03	+0.15	–0.51
Canada	5.33	+0.45	–0.21
Denmark	5.17	+0.29	–0.37
Finland	5.00	+0.12	–0.54
France	4.95	+0.07	–0.59
Germany	4.88	-	–0.66
Ireland	5.12	+0.24	–0.42
Italy	5.20	+0.32	–0.34
Japan	1.30	–3.58	–4.24
Netherlands	4.93	+0.05	–0.61
New Zealand	6.47	+1.59	+0.93
Norway	5.57	+0.69	+0.03
Portugal	5.09	+0.21	–0.45
Spain	5.10	+0.22	–0.44
Sweden	5.09	+0.21	–0.45
Switzerland	2.94	–1.94	–2.60
UK	5.75	+0.87	+0.21
US	5.54	+0.66	-
ECU	5.00	+0.12	–0.54

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

May 27	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB–	96.9928	7.94	+0.15	+0.09	+2.42
Poland	07/04	7.125	BBB–	101.1929	6.88	+0.15	+0.14	+1.34
Russia	06/07	10.000	BB–	87.5500	12.31	+0.42	+1.56	+6.77
LATIN AMERICA								
Argentina	09/27	9.750	BB	90.5000	10.82	+0.26	+0.59	+5.01
Brazil	05/27	10.125	BB–	88.7500	11.47	+0.31	+0.85	+5.66
Mexico	05/26	11.500	BB	114.2000	9.97	+0.11	+0.48	+4.18
ASIA								
China	07/06	7.750	BBB+	103.5090	7.16	+0.16	+0.17	+1.62
Philippines	10/16	8.750	BB+	90.1019	9.83	+0.15	+0.57	+4.28
Thailand	04/07	7.750	BBB–	91.5871	9.17	+0.15	+0.64	+3.63
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB–	101.8250	8.25	–0.13	+0.36	+2.71
South Africa	10/06	8.375	BB+	102.4540	7.95	+0.15	–0.10	+2.41
Turkey	09/07	10.000	B	99.4298	10.08	+0.15	+0.48	+4.54
BRADY BONDS								
Argentina	03/23	5.500	BB	73.8250	8.56	+0.07	+0.17	+2.81
Brazil	04/14	5.000	BB–	75.3750	10.63	+0.24	+0.52	+5.01
Mexico	12/19	6.250	BB	82.0000	8.02	+0.08	+0.15	+2.33
Venezuela	03/20	6.750	B+	82.0000	8.47	+0.06	+0.25	+2.76

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	104.03	104.03	+0.03	104.11	104.00	97,968	108,359
Sep	103.02	103.54	+0.02	103.52	103.52	1,480	12,144

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Jul	Calls Sep	Puts Jun	Puts Jul	Puts Sep
102	1.67	1.32	1.80	0.01	0.15	0.45
103	0.71	0.60	0.97	0.05	0.43	0.80
104	0.09	0.21	0.52	0.43	1.04	1.34
105	0.01	0.04	0.23	1.35	1.86	2.05

Est. vol. total, Calls 19,865 Puts 14,912. Previous day's open int., Calls 63,149 Puts 69,445.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.92	107.73	+0.01	107.97	107.65	74822	127289
Sep	107.52	107.36	+0.05	107.54	107.30	4296	8090

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
10700	0.65	0.84	1.00	1.18	0.29	0.48	0.64	1.23
10750	0.36	0.57	0.72	0.95	0.50	0.71	0.86	1.50
10800	0.17	0.36	0.50	0.76	0.81	1.00	1.14	1.81

Est. vol. total, Calls 46381 Puts 18376. Previous day's open int., Calls 84504 Puts 82921

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105.28	105.36	+0.11	105.37	105.23	204,384	253,446
Sep	105.14	105.20	+0.11	105.21	105.06	11,442	21,084

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	105.33	+0.14	-	-	0	404
Sep	-	105.16	+0.14	-	-	0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	119.32	119.18	-0.04	119.45	119.12	55866	125810
Sep	119.80	119.66	+0.01	119.83	119.63	7833	19757

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jul	Calls Aug	Puts Jul	Puts Aug
11950	0.50	0.72	0.34	0.56
12000	0.25	0.49	0.59	0.83
12050	0.11	0.31	0.95	1.15

Est. vol. total, Calls 1250 Puts 252. Previous day's open int., Calls 5235 Puts 9494

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	109.23	109.09	+0.02	109.26	109.02	76,970	93,066
Sep	109.00	108.89	+0.03	109.00	108.87	3,332	6,112

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	102.98	102.93	-0.03	103.01	102.86	1832	7349
Sep	104.35	104.34	+0.03	104.37	104.29	1100	134

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109.18	109.01	-0.04	109.19	108.98	188974	189386
Sep	109.45	109.28	-0.05	109.47	109.16	58699	38442

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
10900	0.68	0.93	1.14	0.42	0.67	0.88
10950	0.43	0.68	0.88	0.67	0.92	1.12
11000	0.26	0.48	0.67	1.00	1.22	1.41

Est. vol. total, Calls 2257 Puts 100. Previous day's open int., Calls 14700 Puts 5031

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	121-14	121-20	+0-10	121-26	121-12	521,641	617,318
Sep	121-06	121-14	+0-10	121-18	121-06	167,293	270,499
Dec	121-08	121-07	+0-12	121-08	121-03	2,277	80,897

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	133.34	133.29	-	133.34	133.22	4164	n/a
Sep	133.30	133.25	-	133.31	133.19	2776	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.68	103.96	+0.28	103.66	103.66	31	4,997

US CORPORATE BONDS

May 26	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA–	104.2420	6.06	–0.03	–0.07	+0.47
NY Tel	08/25	7.00	A+	98.9825	7.00	–0.04	–0.08	+1.16
CWE	05/08	8.00	BBB	111.0207	6.48	–0.05	–0.09	+0.90
FINANCIALS								
GECC	05/07	8.75	AAA	117.6401	6.16	–0.05	–0.07	+0.58
Banc One	08/02	7.25	A+	103.9025	6.17	–0.04	–0.08	+0.58
US West	01/07	7.30	BBB	107.1455	6.21	–0.06	–0.32	+0.63
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0358	6.19	–0.05	+0.04	+1.03
Wal Mart	05/02	6.75	AA	102.8748	5.92	–0.03	–0.19	+0.33
Dayton Hud	06/21	9.70	BBB+	133.3253	6.81	–0.05	–0.10	+0.97
AGENCIES								
FHLMC	04/07	7.14	N/A	108.5565	5.88	–0.06	–0.12	+0.30
SLMA	03/00	7.50	N/A	102.8868	5.75	–0.03	–0.01	+0.15
FNMA	02/18	8.95	N/A	131.8574	6.13	–0.06	–0.11	+0.29
FFCB	06/06	8.95	N/A	119.7151	5.83	–0.06	–0.10	+0.25
HIGH YIELD								
Stone Cont	02/01	9.88	B	102.6250	0.00	-	-	-
AK Stl	12/01	9.13	BB–	105.2500	0.00	-	-	-
Pacalta	06/04	10.75	B–	102.2500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	5.55
Broker loan rate	7⅛	Two month	-	Three year	5.52
Fed.funds	5½	Three month	5.10	Five year	5.55
Fed.funds at intervention	-	Six month	5.34	10-year	5.55
		One year	5.39	30-year	5.83

INTERNATIONAL BONDS

May 27	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	105.7100	4.92	-	–0.16	+0.03
Spain	01/07	5.750	AA	105.2500	4.98	-	–0.17	+0.09
Philip Morris	03/04	5.975	A	101.3262	5.10	–0.02	–0.03	+0.44
Finland FRN	09/02	3.570	AA	100.5913	3.94	–0.04	–0.14	–0.46
EURO FFR								
Austria	01/04	5.500	AAA	104.0800	4.65	–0.04	–0.15	+0.04
Abbey Nat	02/04	6.000	AA	106.1400	4.74	–0.05	–0.16	+0.13
Cred Foncier	02/04	9.125	A	120.4296	4.93	–0.02	–0.17	+0.32
3CIF FRN	12/01	3.625	AA–	99.7988	4.17	–0.03	–0.12	–0.13
EURO STG								
EIB	02/07	7.000	AAA	112.7400	5.14	–0.02	–0.04	+0.61
Abbey Nat	02/02	6.800	AA	106.6100	4.81	-	–0.07	+0.07
Walt Disney	06/00	8.625	A	107.4000	4.78	–0.03	–0.15	+0.20
EIB FRN	03/01	5.356	AAA	100.0392	4.39	–0.02	–0.14	–0.25
EURO £								
EIB	12/07	7.625	AAA	110.8599	6.08	+0.01	–0.15	+0.28
Dresdner Bk	12/07	7.750	AA–	107.7330	6.62	+0.01	–0.10	+0.82
British Gas	03/00	7.625	A+	101.0883	6.95	+0.01	–0.04	+0.48
Abbey Nat FRN	02/02	7.650	AA	100.0650	6.07	-	–0.08	–0.03
EURO $								
EIB	04/07	7.250	AAA	108.9200	5.93	–0.04	–0.22	+0.38
ABN Amro	06/07	7.125	AA–	105.3375	6.34	–0.05	–0.19	+0.80
Quebec	01/07	7.000	A+	104.7432	6.28	–0.05	–0.15	+0.74
Citicorp FRN	02/04	5.754	A+	100.4380	5.58	–0.03	–0.38	+0.04
EURO C$								
Bayer L–Bk	08/04	9.500	AAA	119.6860	5.64	–0.03	–0.09	+0.16
Toronto	05/04	8.500	AA+	114.3014	5.62	–0.03	–0.06	+0.14
Bell Canada	07/98	10.625	A+	105.3025	5.59	–0.02	–0.03	+0.06
Deutsche B FRN	09/02	5.875	AAA	101.4506	5.49	–0.02	–0.07	+0.06
EURO YEN								
World Bank	03/02	5.250	AAA	116.7000	0.78	+0.04	–0.13	+0.19
Spain	03/02	5.750	AA	118.6100	0.77	+0.02	–0.17	+0.18
Cred Foncier	08/02	4.750	A	114.1489	1.26	+0.02	–0.15	+0.67
Italy FRN	07/99	0.711	AA	100.3175	0.07	-	–0.08	–0.12

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

UK BONDS

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Wed May 27	Day's change %	Tue May 26	Accrued interest	xd adj. ytd
1 Up to 5 years (17)	120.07	0.01	120.06	2.49	4.12
2 5-15 years (20)	164.68	–0.01	164.70	3.46	3.30
3 Over 15 years (5)	206.56	–0.06	206.68	4.69	1.99
4 Irredeemables (4)	256.26	–0.09	256.48	1.00	7.20
5 All stocks (46)	156.65	–0.02	156.67	3.36	3.55
Index-linked					
6 Up to 5 years (2)	216.47	0.07	216.32	0.51	3.13
7 Over 5 years (9)	229.07	0.14	228.74	1.47	2.95
8 All stocks (11)	226.50	0.13	226.21	1.30	2.96

UK Indices

	Low coupon yield May 27	May 26	Yr. ago	Medium coupon yield May 27	May 26	Yr. ago	High coupon yield May 27	May 26	Yr. ago
5 yrs	5.98	5.98	7.08	6.08	6.06	7.14	6.07	6.07	7.18
15 yrs	5.70	5.69	7.30	5.76	5.75	7.31	5.85	5.84	7.39
20 yrs	5.69	5.68	7.35	5.74	5.74	7.32	5.85	5.84	7.42
Irred.†	5.85	5.84	7.44						

	Inflation 5% May 27	May 26	Yr. ago	Inflation 10% May 27	May 26	Yr. ago
Up to 5 yrs	2.99	3.00	3.54	2.33	2.34	2.88
Over 5 yrs	2.75	2.76	3.69	2.55	2.56	3.46

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	May 27	May 26	May 22	May 21	May 20	Yr ago	High*	Low*
Govt. Secs. (UK)	105.01	105.04	104.57	104.54	104.25	95.82	105.60	93.31
Fixed Interest	142.72	142.36	142.39	142.13	141.62	119.80	142.87	115.32

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 15½pc '98‡‡		15.09	6.92	102[illegible]	–$\frac{1}{32}$	113[illegible]	102[illegible]
Exch 12pc 1998		11.74	7.86	102[illegible]	–$\frac{1}{32}$	108[illegible]	102[illegible]
Treas 9½pc 1999‡‡		9.36	6.97	101[illegible]	—	104[illegible]	101[illegible]
Treas Flg Rate 1999‡‡		-	-	100[illegible]	—	100[illegible]	100[illegible]
Exch 12¼pc 1999		11.76	6.92	104[illegible]	–$\frac{1}{32}$	110[illegible]	104[illegible]
Treas 10½pc 1999		10.16	6.86	103[illegible]	—	107[illegible]	103[illegible]
Treas 6pc 1999 ‡‡		6.05	6.70	99[illegible]	—	99[illegible]	97[illegible]
Conv 10¼pc 1999		9.77	6.70	104[illegible]	–$\frac{1}{32}$	108[illegible]	104[illegible]
Treas 8½pc 2000		8.26	6.68	102[illegible]	—	109[illegible]	102[illegible]
Conv 9pc 2000‡‡		8.66	6.61	103[illegible]	—	105[illegible]	103[illegible]
Treas 13pc 2000		11.54	6.66	112[illegible]	—	117[illegible]	112[illegible]
Treas 8pc 2000‡‡		7.72	6.40	103[illegible]	–$\frac{1}{32}$	104[illegible]	102[illegible]
Treas Flg Rate 2001		-	-	100[illegible]	—	100½	100[illegible]
Treas 10pc 2001		9.18	6.40	108[illegible]	—	110[illegible]	108
Conv 9½pc 2001‡‡		8.75	6.46	108[illegible]	—	109[illegible]	107[illegible]
Conv 9¾pc 2001		8.99	6.43	109[illegible]	—	110[illegible]	108[illegible]
Treas 7pc 2001 ‡‡		6.84	6.21	102[illegible]	—	102[illegible]	99[illegible]
Exch 12pc 1999-2		11.65	6.26	103[illegible]	–$\frac{1}{32}$	107[illegible]	103[illegible]
Conv 10pc 2002		8.84	6.10	113[illegible]	–$\frac{1}{32}$	113[illegible]	110[illegible]
Treas 7pc 2002‡‡		6.78	6.10	103[illegible]	–$\frac{1}{32}$	103[illegible]	99[illegible]
Five to Fifteen Years							
Conv 9½pc 2002		8.50	6.13	111[illegible]	–$\frac{1}{32}$	112[illegible]	109[illegible]
Treas 9¾pc 2002		8.61	6.13	113[illegible]	–$\frac{1}{32}$	113[illegible]	110[illegible]
Exch 9pc 2002		8.11	6.15	110[illegible]	–$\frac{1}{32}$	111[illegible]	107[illegible]
Conv 9¾pc 2003‡‡		8.47	6.15	115[illegible]	–$\frac{1}{32}$	115[illegible]	111[illegible]
Treas 8pc 2003‡‡		7.37	6.01	108[illegible]	—	109	103[illegible]
Treas 6½pc 2003		6.32	6.88	102[illegible]	—	103[illegible]	100½
Treas 13¾pc 2000-3		12.82	6.50	114[illegible]	—	118[illegible]	114[illegible]
Treas 10pc 2003		8.50	6.04	117[illegible]	–$\frac{1}{32}$	118[illegible]	113[illegible]
Treas 11½pc 2001-4		10.19	6.40	112[illegible]	—	114[illegible]	112[illegible]
Treas 10pc 2004		8.36	6.06	119[illegible]	–$\frac{1}{32}$	120[illegible]	114[illegible]
Funding 3½pc 1999-4		3.78	4.82	93[illegible]	+$\frac{1}{32}$	93[illegible]	85[illegible]
Conv 9½pc 2004		8.01	5.96	118[illegible]	–$\frac{1}{32}$	119[illegible]	113[illegible]
Treas 6¾pc 2004‡‡		6.45	5.88	104[illegible]xd		105	97[illegible]
Conv 9½pc 2005		7.92	5.84	119[illegible]	–$\frac{1}{32}$	120[illegible]	113[illegible]
Exch 10½pc 2005		8.29	5.94	126[illegible]	–$\frac{1}{32}$	127[illegible]	120[illegible]
Treas 12½pc 2003-5		9.63	6.02	129[illegible]	—	130[illegible]	126[illegible]
Treas 8½pc 2005‡‡		7.34	5.87	115[illegible]	—	116[illegible]	107[illegible]
Conv 9¾pc 2006		7.75	5.83	125[illegible]	–$\frac{1}{32}$	126[illegible]	115[illegible]
Treas 7¾pc 2006‡‡		6.78	5.84	111[illegible]	–$\frac{1}{32}$	111[illegible]	101[illegible]
Treas 7½pc 2006‡‡		6.91	5.87	112[illegible]	–$\frac{1}{32}$	112[illegible]	103[illegible]
Treas 8pc 2002-6‡‡		7.49	6.18	106[illegible]	—	107[illegible]	102[illegible]
Treas 11¾pc 2003-7		9.58	6.11	122[illegible]	—	123[illegible]	120[illegible]
Treas 8½pc 2007 ‡‡		7.17	5.77	118[illegible]	–$\frac{1}{32}$	119[illegible]	108[illegible]
Treas 7¼pc 2007‡‡		6.55	5.77	110[illegible]	–$\frac{1}{32}$	111	100[illegible]
Treas 13½pc 2004-8		9.94	6.10	135[illegible]	—	136[illegible]	132[illegible]
Treas 9pc 2008 ‡‡		7.21	5.77	124[illegible]	–$\frac{1}{32}$	125[illegible]	113
Treas 8pc 2009		6.77	5.78	118[illegible]	–$\frac{1}{32}$	118[illegible]	105[illegible]
Treas 6¼pc 2010‡‡		6.00	5.77	104[illegible]	–$\frac{1}{32}$	104[illegible]	90[illegible]
Conv 9pc Ln 2011 ‡‡		6.97	5.79	129[illegible]	–$\frac{1}{32}$	129[illegible]	114[illegible]
Treas 9pc 2012‡‡		6.89	5.81	130[illegible]	–$\frac{1}{32}$	131[illegible]	114[illegible]
Treas 5½pc 2008-12‡‡		5.56	5.64	98[illegible]	–$\frac{1}{32}$	98[illegible]	85[illegible]
Treas 7¾pc 2012-15‡‡		6.66	5.84	117[illegible]	–$\frac{1}{32}$	116[illegible]	103[illegible]
Over Fifteen Years							
Treas 8pc 2013‡‡		6.56	5.81	121[illegible]	–$\frac{1}{32}$	122[illegible]	106[illegible]
Treas 8pc 2015‡‡		6.41	5.73	124[illegible]	–$\frac{1}{32}$	125[illegible]	108[illegible]
Treas 8¾pc 2017‡‡		6.50	5.76	134[illegible]	–$\frac{1}{32}$	135[illegible]	114[illegible]
Exch 12pc 2013-17		7.37	5.82	162[illegible]	–$\frac{1}{32}$	163[illegible]	149[illegible]
Treas 8pc 2021‡‡		6.20	5.71	129[illegible]	–$\frac{1}{32}$	129[illegible]	107[illegible]
Treas 6pc 2028		5.67	5.60	105[illegible]	–$\frac{1}{32}$	106[illegible]	99[illegible]
Undated							
Consols 4pc		6.07	-	65[illegible]	–$\frac{1}{32}$	67[illegible]	53[illegible]
War Loan 3½pc‡‡		5.77	-	60[illegible]xd	–$\frac{1}{32}$	60[illegible]	47[illegible]
Conv 3½pc '61 Aft.		4.51	-	77[illegible]	–$\frac{1}{32}$	77[illegible]	64[illegible]
Treas 3pc '66 Aft.		6.31	-	47[illegible]	+$\frac{1}{32}$	48[illegible]	39[illegible]
Consols 2½pc		5.87	-	42[illegible]	–$\frac{1}{32}$	43[illegible]	35[illegible]
Treas. 2½pc		5.95	-	42	–$\frac{1}{32}$	42[illegible]	33[illegible]

Index-Linked	Notes (b)	Yield (1)	Yield (2)	Price £	+ or –	52 week High	52 week Low
2½pc '99		2.28	3.02	192[illegible]	+[illegible]	192[illegible]	180[illegible]
2½pc '01	(78.3)	3.00	3.38	198[illegible]	+[illegible]	198[illegible]	185[illegible]
2½pc '03	(78.8)	2.97	3.20	196[illegible]	+[illegible]	196[illegible]	181[illegible]
4⅝pc '04‡‡	(135.6)	2.82	3.02	127[illegible]	+[illegible]	127[illegible]	117[illegible]
2pc '06	(69.5)	2.82	2.97	214[illegible]	+[illegible]	214[illegible]	191[illegible]
2½pc '09	(78.8)	2.78	2.90	195[illegible]	+[illegible]	195[illegible]	171[illegible]
2½pc '11	(74.6)	2.78	2.88	205[illegible]	+[illegible]	205[illegible]	177[illegible]
2½pc '13	(89.2)	2.75	2.84	171[illegible]	+[illegible]	171[illegible]	148
2½pc '16	(81.6)	2.72	2.80	187[illegible]	+[illegible]	187[illegible]	157[illegible]
2½pc '20	(83.0)	2.74	2.80	183[illegible]	+[illegible]	183[illegible]	149[illegible]
2½pc '24‡‡	(97.7)	2.71	2.77	155[illegible]	+[illegible]	155[illegible]	128[illegible]
4⅛pc '30‡‡	(135.1)	2.68	2.74	153[illegible]	+[illegible]	153[illegible]	121[illegible]

Prospective real redemption rate on projected inflation of (1) 5% and (2) 3%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for September 1997: 159.3 and for April 1998: 162.6.

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or –	52 week High	52 week Low
Asian Dev 10¼pc 2009		7.79	6.19	131[illegible]	+1¼	131[illegible]	120¼
B'ham 11½pc 2012		7.80	6.50	147½	+1	147½	131½
Leeds 13½pc 2006		9.34	-	144½	+1	144½	137½
Liverpool 3½pc Irred.		6.36	-	55	—	55	42
LCC 3pc '20 Aft.		6.38	-	47xd	—	47	37
Manchester 11½pc 2007		8.48	6.89	135½	+1	135½	126½
Met. Wtr. 3pc 'B'		3.41	5.85	88	—	89	82
Wmds Anglia 3⅝pc IL 2021		-	3.35	177[illegible]	+3[illegible]	177[illegible]	172¼
4⅛pc IL 2024		-	3.32	171[illegible]	+6[illegible]	171[illegible]	139[illegible]

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices. ✠ Indicative price.

US dollar surges on Russia's troubles

MARKETS REPORT

By Christopher Swann and Richard Adams

Crumbling confidence in the rouble helped the US dollar advance against European currencies on the foreign exchange markets yesterday, as investors sought refuge in the greenback.

Russia's central bank tripled key interest rates to 150 per cent – the highest levels in over two years – in a bid to restore the confidence of foreign investors and forestall a rouble devaluation.

Michael Lewis, currency analyst at Deutsche Bank in London, said the rouble's fate would be in the balance until the IMF stepped in to provide reassurance. "The concern is that events in east Asia are repeating themselves in Russia, hence these safe-haven flows into the dollar," Mr Lewis said.

"When we woke up, Asia was the problem and Europe a comfortable place to be. Now the problems have moved to Europe's back yard."

The dollar appreciated against other major currencies. Against the D-Mark, which is thought to be particularly vulnerable to trends in Russia, the dollar rose almost a pfennig to DM1.7816 by the end of trading hours in London.

Analysts said the Russian crisis provided, at most, a reprieve for the dollar against the core European currencies. "The dollar's fundamentals are not particularly bullish," said one. "America's yawning trade deficit is likely to keep the dollar on the defensive."

The Swiss franc also benefitted from its safe-haven status, rising against an array of currencies and slipping only against the dollar. Against the D-Mark, the Swissie posted its biggest advance of the year and strengthened to DM1.211.

Sterling rose in sympathy with the dollar, reaching DM2.92 against the D-Mark before falling back to DM2.91.

Sterling's rise was helped by a hawkish speech from Mervyn King, the Bank of England's chief economist. He warned that UK domestic consumption may remain "stubbornly buoyant".

■ Russia made the interest rate increase during mid-day trading in London, after pressure on the rouble.

Last week, Russia's central bank raised interest rates from 30 to 50 per cent, to boost confidence in a market laid low by Asia's financial troubles. Confidence was also hit by the announcement on Tuesday that there had been no bidders for a 75 per cent stake in Rosneft, the last of the big state-controlled oil companies.

David Lubin, emerging markets economist at HSBC bank in London, said Russia's problems stemmed from inadequate foreign exchange reserves. "In considering its response, the IMF is seen to be facing a moral hazard," he said. "If it arranges supplementary funding it will be open to the accusation that it bales out investors."

■ The yen was edged out of the spotlight yesterday by events in Russia, affording respite for the Japanese currency from its weakening trend. The dollar spent the day trading within a half-yen band. But analysts said they expected the weakness of the yen to persist. A slew of downgradings of Japanese banks by Moody's added to the bearish sentiment.

Jeremy Hawkins, chief economist at Bank of America in London, said the market anticipated a further depreciation of the yen against the dollar, but that talk of Japanese intervention had held the dollar in check for now.

■ The Czech Republic's koruna also suffered from the rouble's difficulties, exactly a year since the Czech currency floated.

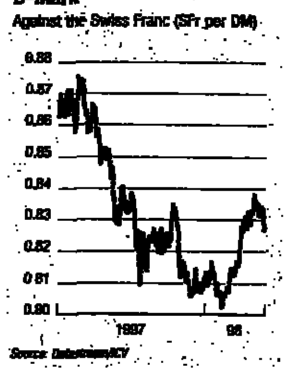
The koruna and the Polish zloty were hardest hit of Eastern Europe's emerging market by the Russian turmoil. The koruna fell by almost two per cent against the D-Mark, which prompted the Czech National Bank to indicate its readiness to intervene in the market.

Only last Friday the koruna had reached its highest level for the year at Kč18.1 against the D-Mark.

Elsewhere, India's rupee touched a fresh low of Rs41.325 against the dollar, driven down by the World Bank's decision on Tuesday to postpone $855m worth of loans.

D-Mark

Against the Swiss Franc (SFr per DM)



Source: Datastream/ICV

■ POUND IN NEW YORK

May 27	—Latest—	-- Prev. close --
£ spot	1.6305	1.6385
1 mth	1.6280	1.6340
3 mth	1.6235	1.6295
1 yr	1.6084	1.6130

■ OTHER CURRENCIES

May 27	£	$
Czech Rp	54.5305 - 54.6309	33.4420 - 33.4830
Hungary	347.156 - 347.531	212.800 - 213.000
Iran	4894.80 - 4897.80	3000.00 - 3000.00
Kuwait	0.4993 - 0.4998	0.3062 - 0.3063
Peru	4.6521 - 4.6615	2.8530 - 2.8570
Poland	5.7560 - 5.7758	3.5300 - 3.5400
Russia	10.0820 - 10.1045	6.1830 - 6.1930
U.A.E.	5.9889 - 5.9930	3.6728 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

May 27		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.4476	+0.0417	378 - 573	20.4845	20.2870	20.3785	4.1	20.2535	3.8	19.7772	3.3	103.1
Belgium	(BFr)	59.9429	+0.1468	919 - 939	60.1170	59.5220	59.7434	4.0	59.3791	3.8	58.0042	3.2	102.7
Denmark	(DKr)	11.0656	+0.0204	605 - 706	11.0896	10.9852	11.0373	3.1	10.9849	2.9	10.7739	2.6	105.2
Finland	(FM)	8.8308	+0.0183	235 - 381	8.8590	8.7690	8.8023	3.9	8.7586	3.8	8.5498	3.2	81.1
France	(FFr)	9.7426	+0.0169	379 - 472	9.7717	9.6670	9.7083	4.1	9.6481	3.9	9.42	3.3	106.1
Germany	(DM)	2.9059	+0.0059	046 - 072	2.9181	2.8830	2.896	4.1	2.8779	3.9	2.8105	3.3	104.2
Greece	(Dr)	501.286	+3.855	953 - 619	501.867	495.378	503.475	-5.2	507.752	-5.2	520.347	-3.8	60.1
Ireland	(I£)	1.1534	+0.0017	510 - 558	1.1569	1.1458	1.1525	0.9	1.1503	1.1	1.1301	2.0	95.0
Italy	(L)	2863.15	+3.78	187 - 444	2873.86	2844.04	2858.47	2.0	2847.29	2.2	2786.31	2.7	78.1
Luxembourg	(LFr)	59.9429	+0.1468	919 - 939	60.1170	59.5220	59.7434	4.0	59.3791	3.8	58.0042	3.2	102.7
Netherlands	(Fl)	3.2745	+0.0063	731 - 759	3.2865	3.2504	3.2633	4.1	3.2428	3.9	3.1665	3.3	102.1
Norway	(NKr)	12.3437	+0.1089	396 - 478	12.3816	12.2043	12.3146	2.8	12.2645	2.6	12.0922	2.0	95.5
Portugal	(Es)	297.513	+0.488	340 - 685	298.255	295.594	298.751	3.1	295.26	3.0	288.491	3.0	92.0
Spain	(Pta)	245.533	+0.215	384 - 682	247.210	245.020	245.874	3.2	244.64	3.1	239.129	3.0	77.0
Sweden	(SKr)	12.7711	+0.0761	590 - 831	12.7976	12.6101	12.739	3.0	12.6784	2.9	12.4289	2.7	86.0
Switzerland	(SFr)	2.4007	-0.0089	989 - 024	2.4071	2.3868	2.3885	6.1	2.3659	5.8	2.2759	5.2	106.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	103.5
Ecu	-	1.4747	+0.0022	737 - 756	1.4784	1.4647	1.4705	3.4	1.4628	3.2	1.4304	3.0	-
SDR†	-	1.220100	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6308	-0.0054	303 - 313	1.6422	1.6285	-	-	-	-	-	-	-
Brazil	(R$)	1.8768	-0.0101	760 - 776	1.8954	1.8747	-	-	-	-	-	-	-
Canada	(C$)	2.3757	-0.0059	745 - 768	2.3925	2.3699	2.3704	2.7	2.3615	2.4	2.3279	2.0	81.3
Mexico	(New Peso)	14.4842	+0.263	716 - 968	14.6497	14.3768	14.6813	-16.3	15.0464	-15.5	16.5773	-14.5	-
USA	($)	1.6311	-0.0054	306 - 316	1.6425	1.6288	1.6285	1.9	1.624	1.8	1.6071	1.5	111.4
Pacific/Middle East/Africa													
Australia	(A$)	2.6247	-0.0085	228 - 265	2.6569	2.6192	2.6183	2.5	2.6086	2.5	2.5643	2.3	83.2
Hong Kong	(HK$)	12.6386	-0.0394	339 - 433	12.7236	12.6208	12.6676	-2.7	12.6944	-1.8	13.0072	-2.9	-
India	(Rs)	67.4134	+0.0305	601 - 667	67.8060	66.7490	-	-	-	-	-	-	-
Israel	(Shk)	5.9367	-0.0146	300 - 434	5.9539	5.9144	-	-	-	-	-	-	-
Japan	(Y)	224.448	-1.266	305 - 590	226.120	224.305	223.083	7.3	220.478	7.1	209.723	6.6	112.5
Malaysia	(M$)	6.2757	-0.0007	656 - 857	6.3230	6.2480	6.3636	-16.8	6.5204	-15.6	6.9146	-10.2	-
New Zealand	(NZ$)	3.0583	-0.0066	553 - 612	3.0921	3.0553	3.0604	-0.8	3.0659	-1.0	3.0824	-0.8	96.3
Philippines	(Peso)	63.3683	+0.1993	858 - 508	63.5508	63.1858	63.7945	-8.1	64.6321	-8.0	68.6157	-8.3	-
Saudi Arabia	(SR)	6.1177	-0.0202	156 - 198	6.1602	6.1093	6.11	1.5	6.0964	1.4	6.0494	1.1	-
Singapore	(S$)	2.7199	+0.0123	174 - 223	2.7397	2.6929	2.727	-3.1	2.7365	-2.4	2.7603	-1.5	-
South Africa	(R)	8.4083	+0.04	033 - 133	8.4522	8.3619	8.505	-13.8	8.5991	-9.1	8.9717	-6.7	-
South Korea	(Won)	2303.93	+21.01	915 - 871	2315.93	2281.02	-	-	-	-	-	-	-
Taiwan	(T$)	55.2527	-0.1682	958 - 096	55.5966	55.1958	55.3855	-2.9	55.6862	-3.1	56.4085	-2.1	-
Thailand	(Bt)	64.5916	+0.318	902 - 929	65.0230	64.0690	65.9556	-25.3	68.6142	-24.9	75.6953	-17.2	-

† Rates for May 28. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. The exchange rates printed in this table are also available on the Internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 27		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.5367	+0.0669	339 - 382	12.5382	12.3880	12.5134	2.2	12.4714	2.1	12.3061	1.8	103.1
Belgium	(BFr)	36.7500	+0.211	300 - 700	36.8700	36.3450	36.6855	2.1	36.5635	2.0	36.0925	1.8	102.8
Denmark	(DKr)	6.7841	+0.0348	831 - 851	6.8037	6.7066	6.7774	1.2	6.7641	1.2	6.7038	1.2	104.7
Finland	(FM)	5.4140	+0.029	112 - 168	5.4324	5.3525	5.4051	2.0	5.3982	1.9	5.32	1.7	80.7
France	(FFr)	5.9730	+0.03	720 - 740	5.9953	5.9030	5.9619	2.2	5.9409	2.1	5.8615	1.9	105.9
Germany	(DM)	1.7816	+0.0085	813 - 818	1.7879	1.7606	1.7783	2.2	1.7722	2.1	1.7489	1.8	104.1
Greece	(Dr)	307.330	+3.37	220 - 440	307.830	302.650	309.16	-7.1	312.655	-6.9	323.78	-5.4	60.5
Ireland	(I£)	1.4142	-0.0088	117 - 167	1.4291	1.4098	1.413	1.0	1.4118	0.7	1.4221	-0.6	-
Italy	(L)	1755.35	+8.1	510 - 560	1762.35	1738.20	1755.25	0.1	1753.25	0.5	1733.75	1.2	78.0
Luxembourg	(LFr)	36.7500	+0.211	300 - 700	36.8700	36.3450	36.6855	2.1	36.5635	2.0	36.0925	1.8	102.8
Netherlands	(Fl)	2.0076	+0.0105	073 - 078	2.0150	1.9846	2.0038	2.2	1.9969	2.1	1.9705	1.9	102.1
Norway	(NKr)	7.5677	+0.0903	675 - 679	7.5980	7.4489	7.5618	0.9	7.552	0.8	7.5242	0.6	95.6
Portugal	(Es)	182.400	+0.9	350 - 450	182.950	180.400	182.22	1.2	181.81	1.3	179.51	1.6	92.6
Spain	(Pta)	151.145	+0.63	100 - 190	151.470	149.630	150.979	1.3	150.64	1.3	148.795	1.6	76.9
Sweden	(SKr)	7.8297	+0.0723	247 - 347	7.8500	7.6990	7.8224	1.1	7.8068	1.2	7.7337	1.2	86.4
Switzerland	(SFr)	1.4718	-0.0006	712 - 724	1.4762	1.4539	1.4667	4.2	1.4567	4.1	1.4162	3.8	106.2
UK	(£)	1.6311	-0.0054	306 - 316	1.6425	1.6288	1.6285	1.9	1.624	1.8	1.6071	1.5	103.0
Ecu	-	1.1061	-0.0053	057 - 065	1.1182	1.1020	1.1075	-1.5	1.1102	-1.5	1.1236	-1.6	-
SDR†	-	0.74599	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-	998 - 998	0.9998	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.1507	-0.0023	505 - 508	1.1550	1.1508	-	-	-	-	-	-	-
Canada	(C$)	1.4565	+0.0012	562 - 567	1.4570	1.4543	1.4556	0.7	1.4541	0.6	1.4486	0.5	81.5
Mexico	(New Peso)	8.8800	+0.19	750 - 850	8.8850	8.8750	9.015	-18.2	9.265	-17.3	10.315	-16.2	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	111.8
Pacific/Middle East/Africa													
Australia	(A$)	1.6091	+0.0001	085 - 098	1.6221	1.6062	1.6083	0.6	1.6057	0.8	1.595	0.9	82.8
Hong Kong	(HK$)	7.7485	+0.0015	480 - 490	7.7490	7.7451	7.7785	-4.6	7.8167	-3.5	8.0935	-4.5	-
India	(Rs)	41.3300	+0.155	100 - 500	41.4800	40.8000	-	-	-	-	-	-	-
Israel	(Shk)	3.6397	+0.0031	367 - 427	3.6509	3.6256	-	-	-	-	-	-	-
Japan	(Y)	137.605	-0.32	560 - 650	138.010	137.300	136.985	5.4	135.76	5.4	130.5	5.2	113.6
Malaysia	(M$)	3.8475	+0.0122	425 - 525	3.8550	3.8200	3.9075	-18.7	4.015	-17.4	4.3025	-11.8	-
New Zealand	(NZ$)	1.8749	+0.0021	737 - 762	1.8843	1.8737	1.878	-2.0	1.8834	-1.8	1.9022	-1.5	-
Philippines	(Peso)	38.8500	+0.25	500 - 500	38.9500	38.7500	39.173	-10.0	39.798	-9.8	42.695	-9.9	-
Saudi Arabia	(SR)	3.7507	+0.0001	505 - 508	3.7508	3.7505	3.7519	-0.4	3.754	-0.3	3.7642	-0.4	-
Singapore	(S$)	1.6675	+0.013	665 - 685	1.6685	1.6485	1.6745	-5.0	1.685	-4.2	1.7175	-3.0	-
South Africa	(R)	5.1550	+0.0415	535 - 565	5.1565	5.1150	5.2225	-15.7	5.295	-10.9	5.5825	-8.3	-
South Korea	(Won)	1412.50	+17.5	000 - 500	1415.00	1400.00	-	-	-	-	-	-	-
Taiwan	(T$)	33.8745	+0.009	500 - 990	33.8990	33.8180	34.0095	-4.8	34.2895	-4.9	35.0895	-3.6	-
Thailand	(Bt)	39.6000	+0.325	500 - 500	39.6500	39.2000	40.5	-27.3	42.25	-26.8	47.1	-18.9	-

† SDR rate per $ for May 28. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices May 26. Base average 1990=100. Bid, offer, mid spot rates and forward rates in both this and the Dollar table are derived from THE WM/REUTERS CLOSING SPOT and FORWARD RATE services. Some values are rounded by the F.T.
The exchange rates printed in this table are also available on the Internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

May 27	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3 3/8	3 3/4	3 7/16	3 15/32	3 17/32	6.00	2.75	-
France	3 9/16	3 1/2	3 1/2	3 9/16	3 19/32	4.60	-	3.30
Germany	3 3/8	3 7/16	3 1/2	3 9/16	3 21/32	4.50	2.50	3.30
Ireland	6 3/4	6 1/16	6 1/4	5 7/8	5 3/4	-	-	6.75
Italy	5 7/16	5 5/16	5 1/16	4 13/16	4 1/2	6.50	5.00	5.57
Netherlands	3 7/16	3 15/32	3 1/2	3 9/16	3 5/8	-	2.75	3.30
Switzerland	1 1/8	1 13/32	1 1/2	1 5/8	1 3/4	-	1.00	-
US	5 3/8	5 1/2	5 1/2	5 9/16	5 9/16	-	5.00	-
Japan	1/2	1/2	1/2	1/2	1/2	-	0.50	-
■ $ LIBOR BBA London								
Interbank Fixing	-	5 5/8	5 21/32	5 3/4	5 29/32	-	-	-
US Dollar CDs	-	5.44	5.48	5.52	5.62	-	-	-
ECU Linked Ds	-	4 1/4	4 1/4	4 1/4	4 1/4	-	-	-
SDR Linked Ds	-	3 3/4	3 3/4	3 13/16	3 7/8	-	-	-

London interbank fixing rate (LIBOR) is the BBA London rate, fixed at 11am.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

May 27	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 7/16 - 3 3/8	3 1/2 - 3 3/8	3 1/2 - 3 3/8	3 9/16 - 3 7/16	3 5/8 - 3 1/2	4 - 3 7/8
Danish Krone	5 - 4	4 5/8 - 4 1/2	4 1/2 - 4 3/8	4 5/8 - 4 1/2	4 3/4 - 4 5/8	4 7/8 - 4 3/4
German Mark	3 1/2 - 3 3/8	3 1/2 - 3 3/8	3 1/2 - 3 3/8	3 9/16 - 3 7/16	3 5/8 - 3 1/2	3 3/4 - 3 5/8
Dutch Guilder	3 1/2 - 3 3/8	3 1/2 - 3 3/8	3 1/2 - 3 3/8	3 5/8 - 3 1/2	3 11/16 - 3 9/16	3 13/16 - 3 11/16
French Franc	3 5/8 - 3 1/2	3 5/8 - 3 1/2	3 5/8 - 3 1/2	3 5/8 - 3 1/2	4 - 3 7/8	3 7/8 - 3 3/4
Portuguese Esc.	4 1/2 - 4 3/8	4 5/8 - 4 1/2	4 5/8 - 4 1/2	4 5/8 - 4 1/2	4 1/2 - 4 3/8	4 1/2 - 4 3/8
Spanish Peseta	4 1/2 - 4 3/8	4 1/2 - 4 3/8	4 1/2 - 4 3/8	4 1/2 - 4 3/8	4 1/2 - 4 3/8	4 1/2 - 4 3/8
Sterling	7 3/4 - 7 1/2	7 3/8 - 7 1/4	7 5/8 - 7 1/2	7 3/4 - 7 5/8	7 3/4 - 7 5/8	7 3/4 - 7 5/8
Swiss Franc	1 1/2 - 1 1/4	1 1/2 - 1 3/8	1 5/8 - 1 1/2	1 5/8 - 1 1/2	1 3/4 - 1 5/8	1 7/8 - 1 3/4
Canadian Dollar	4 7/8 - 4 3/4	4 7/8 - 4 3/4	5 1/16 - 4 15/16	5 1/8 - 5	5 1/4 - 5 1/8	5 3/8 - 5 1/4
US Dollar	5 5/8 - 5 1/2	5 5/8 - 5 1/2	5 5/8 - 5 1/2	5 5/8 - 5 1/2	5 11/16 - 5 9/16	5 3/4 - 5 5/8
Italian Lira	5 3/4 - 5 1/2	5 3/8 - 5 1/4	5 1/4 - 5 1/8	5 1/16 - 4 15/16	4 7/8 - 4 3/4	4 5/8 - 4 1/2
Japanese Yen	1/2 - 1/4	1/2 - 3/8	1/2 - 3/8	5/8 - 1/2	5/8 - 1/2	3/4 - 5/8
Asian $Sing	1 1/2 - 1 1/4	4 3/4 - 4 1/2	5 1/4 - 5 1/8	6 - 5 3/4	6 1/8 - 5 7/8	6 1/8 - 5 7/8

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.390	96.400	+0.005	96.405	96.390	7,505	77,787
Sep	96.230	96.250	+0.001	96.230	96.230	10,216	46,631

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.380	96.385	+0.010	96.395	96.375	66133	356041
Sep	96.230	96.245	+0.025	96.255	96.225	89458	380366
Dec	95.990	96.035	+0.055	96.040	95.985	108993	430086
Mar	95.865	95.920	+0.070	95.925	95.860	70679	385299

■ ONE MONTH EUROMARK FUTURES (LIFFE) DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	96.480	+0.015	-	-	0	0
Jul	-	96.435	+0.015	-	-	0	0

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.060	95.000	-0.060	95.060	94.990	65588	242502
Sep	95.700	95.670	-0.010	95.730	95.640	43080	218049
Dec	95.900	95.900	+0.050	96.010	95.890	36329	145262
Mar	95.850	95.910	+0.070	95.930	95.850	10018	202630

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	98.370	98.380	+0.040	98.380	98.350	15396	58397
Sep	98.200	98.260	+0.080	98.260	98.190	40364	56110
Dec	97.880	98.040	+0.080	98.040	97.880	12080	31143
Mar	97.880	97.840	+0.070	97.960	97.880	3211	12120

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	99.39	-	-	-	0	n/a
Sep	-	99.40	-0.01	-	-	0	n/a
Dec	-	99.39	-0.01	-	-	0	n/a

* LIFFE futures also traded on APT

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.760	95.760	+0.005	95.760	95.740	1199	12086
Sep	95.800	95.830	+0.025	95.830	95.780	811	16824
Dec	95.850	95.900	+0.055	95.900	95.850	198	7168
Mar	95.800	95.910	+0.060	95.900	95.800	24	5164

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
95125	0.030			0.155		
95250	0.015	0.440	0.750	0.265	0.020	0.010
95375	0.010			0.385		

Est. vol. total, Calls 28044 Puts 19053. Previous day's open int., Calls 344644 Puts 297664

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

May 27		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.25	4.848	1.924	4776	5.463	20.59	496.3	411.3	21.31	4.005	1.668	3.963	2.721	374.4	2.460
Denmark	(DKr)	54.17	10	8.804	2.626	1.042	2587	2.959	11.16	268.9	222.8	11.54	2.169	0.904	2.147	1.474	202.8	1.333
France	(FFr)	61.53	11.36	10	2.983	1.184	2939	3.361	12.67	305.4	253.0	13.11	2.464	1.026	2.438	1.674	230.4	1.514
Germany	(DM)	20.63	3.808	3.353	1	0.397	985.3	1.127	4.248	102.4	84.84	4.395	0.826	0.344	0.818	0.561	77.24	0.507
Ireland	(I£)	51.97	9.594	8.447	2.520	1	2482	2.839	10.70	258.0	213.7	11.07	2.081	0.867	2.060	1.414	194.6	1.279
Italy	(L)	2.094	0.386	0.340	0.102	0.040	100	0.114	0.431	10.39	8.611	0.446	0.084	0.035	0.083	0.057	7.839	0.052
Netherlands	(Fl)	18.31	3.379	2.975	0.887	0.352	874.4	1	3.770	90.85	75.29	3.900	0.733	0.305	0.726	0.498	68.54	0.450
Norway	(NKr)	48.56	8.965	7.893	2.354	0.934	2320	2.653	10	241.0	199.7	10.35	1.945	0.810	1.925	1.321	181.8	1.195
Portugal	(Es)	20.15	3.719	3.275	0.977	0.388	962.4	1.101	4.149	100	82.86	4.293	0.807	0.336	0.799	0.548	75.44	0.496
Spain	(Pta)	24.31	4.488	3.952	1.179	0.468	1161	1.328	5.007	120.7	100	5.180	0.974	0.405	0.964	0.662	91.04	0.598
Sweden	(SKr)	46.94	8.665	7.629	2.275	0.903	2242	2.564	9.665	233.0	193.0	10	1.880	0.783	1.860	1.277	175.7	1.155
Switzerland	(SFr)	24.97	4.609	4.058	1.211	0.480	1193	1.364	5.142	123.9	102.7	5.320	1	0.417	0.990	0.679	93.49	0.614
UK	(£)	59.94	11.07	9.743	2.906	1.153	2863	3.275	12.34	297.5	246.5	12.77	2.401	1	2.376	1.631	224.4	1.475
Canada	(C$)	25.23	4.658	4.101	1.223	0.485	1205	1.378	5.196	125.2	103.8	5.376	1.011	0.421	1	0.687	94.48	0.621
USA	($)	36.75	6.784	5.973	1.782	0.707	1755	2.008	7.568	182.4	151.1	7.830	1.472	0.613	1.457	1	137.6	0.904
Japan	(Y)	26.71	4.930	4.341	1.295	0.514	1276	1.459	5.500	132.6	109.8	5.690	1.070	0.446	1.058	0.727	100	0.657
Ecu	-	40.65	7.504	6.607	1.971	0.782	1942	2.221	8.371	201.6	167.2	8.660	1.628	0.678	1.611	1.106	152.2	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.5655	0.5617	-0.0038	0.5685	0.5590	24,230	137,780
Sep	0.5710	0.5646	-0.0039	0.5714	0.5620	1,897	7,153
Dec	0.5690	0.5673	-0.0039	0.5735	0.5674	3	312

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.6811	0.6812	-	0.6892	0.6780	10,358	68,922
Sep	0.6936	0.6881	-	0.6963	0.6850	312	3,328
Dec	0.7025	0.6948	+0.0001	0.7025	0.6940	1	56

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	0.7276	0.7299	+0.0028	0.7307	0.7262	38,105	117,325
Sep	0.7368	0.7395	+0.0028	0.7393	0.7365	1,432	5,083
Dec	0.7486	0.7492	+0.0026	0.7490	0.7480	120	686

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	1.6352	1.6300	-0.0046	1.6410	1.6266	9,015	50,149
Sep	1.6278	1.6232	-0.0046	1.6336	1.6190	543	2,410
Dec	-	1.6164	-0.0048	1.6270	1.6130	2	185

UK INTEREST RATES

LONDON MONEY RATES

May 27	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	7 1/2 - 7	7 1/4 - 7 3/8	7 5/8 - 7 1/2	7 3/4 - 7 5/8	7 7/8 - 7 3/4	7 15/16 - 7 13/16
Sterling CDs	-	-	7 1/2 - 7 3/8	7 21/32 - 7 19/32	7 13/16 - 7 23/32	7 7/8 - 7 3/4
Treasury Bills	-	-	7 1/2 - 7 3/8	7 1/2 - 7 3/8	-	-
Bank Bills	-	-	7 1/2 - 7 7/16	7 1/2 - 7 7/16	7 1/2 - 7 1/2	-
Local authority deps.	7 1/4 - 7	7 1/4 - 7 1/8	7 5/8 - 7 1/2	7 3/4 - 7 5/8	7 7/8 - 7 3/4	7 7/8 - 7 3/4
Discount Market deps	7 1/4 - 7 1/8	7 1/4 - 7 1/8	-	-	-	-

UK clearing bank base lending rate 7¼ per cent from Nov 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	4	6.5	6.5	6.25	6.25

Certs of Tax dep. under £100,000 is 4pc. Deposits withdrawn for cash 2pc. Ave. tender rate of discount on May 15, 7.0281pc. ECGD fixed rate Stg. Export Finance. Make up day Apr 30, 1998. Agreed rate for period May 26, 1998 to Jun 25, 1998, Scheme III 8.78pc. Reference rate for period Apr 1, 1998 to Apr 30, 1998, Schemes IV & V 7.527pc. Finance House Base Rate 8pc from May 1, 1998

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	92.610	92.510	-	92.520	92.500	16570	157889
Sep	92.650	92.630	-0.020	92.670	92.610	17637	116504
Dec	92.820	92.780	-0.030	92.830	92.750	40702	118378
Mar	92.970	92.970	-0.030	93.030	92.950	31086	100327
Jun	93.200	93.165	-0.025	93.210	93.150	8319	84599

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
92625	0			0.115		
92750	0	0.050	0.175	0.240	0.170	0.145
92875	0			0.365		

Est. vol. total, Calls 16129 Puts 13738. Previous day's open int., Calls 421647 Puts 314884

EMS EUROPEAN CURRENCY UNIT RATES

May 27	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Greece	357.000	338.558	+1.436	-5.17	4.93	35
Ireland	0.796244	0.780948	-0.000396	-1.92	1.45	13
Italy	1957.61	1939.32	-0.65	-0.93	0.44	7
Denmark	7.54257	7.49203	-0.00106	-0.67	0.18	5
Spain	168.220	167.107	-0.053	-0.66	0.17	5
Portugal	202.692	201.495	+0.005	-0.59	0.10	4
Finland	6.01125	5.97800	-0.00192	-0.55	0.06	4
France	6.63186	6.59656	-0.00151	-0.53	0.04	4
Germany	1.97738	1.96718	-0.00028	-0.52	0.02	5
Belgium	40.7844	40.5797	-0.0049	-0.50	0.01	4
Austria	13.9119	13.8423	-0.0018	-0.50	0.01	4
Netherlands	2.22799	2.21697	-0.00035	-0.49	0.00	4
NON ERM MEMBERS						
UK	0.653644	0.680361	+0.000772	4.09	-4.40	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu: a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. 16/3/98: Drachma joined ERM & Punt revalued by 3%. Other central rates adjusted. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE $/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.620	1.53	2.08	2.57	0.47	1.26	2.04
1.630	0.94	1.54	2.01	0.87	1.73	2.51
1.640	0.53	1.11	1.68	1.44	2.32	3.08

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK OPTIONS DM62,500 (cents per DM)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
0.560	0.87	0.80	1.19	0.34	0.57	0.77
0.565	0.33	0.63	0.92	0.59	0.85	1.01
0.570	0.18	0.43	0.71	0.94	1.12	1.30

Previous day's vol., Calls n/a Puts n/a . Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.30	94.32	+0.02	94.33	94.30	51,207	433,143
Sep	94.28	94.30	+0.05	94.32	94.26	89,935	458,879
Dec	94.16	94.24	+0.06	94.25	94.16	52,279	393,535

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.99	94.99	+0.05	94.99	94.98	22	2,332
Sep	94.97	94.98	+0.06	95.00	94.96	24	1,828
Dec	-	94.99	+0.07	94.99	-	-	61

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
96375	0.020				0.020			
96500	0	0.005	0.010	0.005	0.115	0.260	0.265	0.260
96625	0				0.240			
96750	0	0	0	0	0.365	0.505	0.505	0.505

Est. vol. total, Calls 42379 Puts 13819. Previous day's open int., Calls 382409 Puts 422694

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
98500	0.020	0.060	0.060	0.140	0.300	0.520
98625	0			0.265		

Est. vol. total, Calls 600 Puts 0. Previous day's open int., Calls 26560 Puts 9497

BASE LENDING RATES

	%		%		%
Adam & Company	7.25	Exeter Trust Limited	8.25	●Singer & Friedlander	7.25
Allied Irish Bank (GB)	7.25	Financial & Gen Bank	8.00	●Smith & Williamson	7.25
●Henry Ansbacher	7.25	●Robert Fleming & Co	7.25	Sun Bank	7.25
Banco Bilbao Vizcaya	7.25	●Guinness Mahon	7.25	TSB	7.25
Bank of Cyprus	7.25	Habib Bank AG Zurich	7.25	United Bank of Kuwait	7.25
Bank of Ireland	7.25	●Hambros Bank	7.25	Unity Trust Bank Plc	7.25
Bank of India	7.25	Heritable & Gen Inv Bk	7.25	Whiteaway Laidlaw	7.25
Bank of Scotland	7.25	C. Hoare & Co	7.25	Yorkshire Bank	7.25
Barclays Bank	7.25	Hongkong & Shanghai	7.25		
Brit Bk of Mid East	7.25	Investec Bank (UK) Ltd	7.25	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	7.25	Julian Hodge Bank	7.25	* In administration	
Citibank NA	7.25	●Leopold Joseph & Sons	7.25		
Clydesdale Bank	7.25	Lloyds Bank	7.25		
The Co-operative Bank	7.25	Midland Bank	7.25		
Coutts & Co	7.25	NatWestminster	7.25		
Cyprus Popular Bank	7.25	●Rea Brothers	7.25		
Duncan Lawrie	7.25	Royal Bk of Scotland	7.25		
		Scottish Widows Bank	7.25		

COMMODITIES & AGRICULTURE

Hydro Aluminium to double production

Kenneth Gooding in Haugesund

Hydro Aluminium, a subsidiary of Norsk Hydro, Norway's biggest quoted company, is soon to decide on the location of a new $1bn smelter.

The smelter, to be built either in Trinidad or Qatar, will be its first outside Europe and part of one of the aluminium industry's most aggressive expansion programmes.

Hydro intends to double its annual aluminium production to 1.35m tonnes between 1996 and 2005. It will also probably expand annual capacity at its Sunndal smelter in Norway from 145,000 tonnes to 230,000 tonnes at a cost of $300m.

Since 1996 Hydro has reactivated 20,000 tonnes of capacity in Norway that was shut down in the early 1990s when a collapse in Russian demand caused a glut of aluminium. Two other smelters in Norway, Karmoy and Ardal, were expanded last year by a total of 47,000 tonnes at a cost of $120m, lifting Hydro's annual capacity to 740,000 tonnes.

It aims to increase aluminium sales this year from 1.58m to 1.75m tonnes – the extra coming from buying in metal to remelt it.

Hydro is expanding its smelting operations to keep pace with growth in sales of downstream products such as extrusions, wire rod and foundry alloys. Its extrusion business, already the biggest in Europe, is also expected to double in size to about 650,000 tonnes by 2005.

To meet its aluminium expansion target Hydro needs 400,000 tonnes of new capacity outside Norway. The choice of location for a new smelter – Qatar or Trinidad – will depend greatly on the cost and supply of power. Either smelter would use natural gas.

In Qatar the domestic natural gas supply group would take 40 per cent of the project. Hydro might seek a partner in Trinidad if it went there, said Thomas Knutzen, manager of information and public affairs for Hydro Metal Products.

Hydro has yet to decide whether it would be better to start with a 230,000 tonnes a year smelter with the prospect of doubling capacity later, or to start with a 460,000 tonnes smelter.

Further ahead, Hydro is considering another $1bn smelter project in Iceland. Other options for the longer term include expansion of the Slovalco plant in the Slovak Republic by 30,000 tonnes to 140,000 tonnes. Hydro owns 10 per cent of Slovalco and markets all its output. It has also started talks with Impexmetal in Poland that might lead to a smelter being built there.

The expansion programme might change if Hydro is successful in a bid for the Venezuelan government's aluminium companies, which are likely to come up for tender again soon.

Hydro has joined Reynolds Metals of the US to tender but Mr Knutzen said there would be strong competition.

He said the expansion programme would help cut Hydro's average aluminium production costs. A recent reorganisation of Norwegian aluminium operations would help by reducing administration costs by 30 per cent.

Hydro expects to add to its raw material supply via the $1bn Utkal Alumina project in Orisa, India. The 1m tonnes a year project will initially be shared between Hydro, with 40 per cent, and Alcan of Canadian and two Indian groups, Tata and Indal, with 20 per cent each.

Once production is under way, possibly in five years' time, 25 per cent will be sold to Indian investors and Utkal will be listed in India.

Call for more production cuts by Opec

MARKETS REPORT

By Gary Mead

Another voice was added to the growing clamour for more production cuts by the Organisation of Petroleum Exporting Countries yesterday, when Sheikh Zaki Yamani, Saudi Arabia's former oil minister, said Opec will have to cut its production to 27m barrels a day if it hopes to see Brent prices stabilise at $14 a barrel in the second half of 1998. Brent averaged $19.32 a barrel in 1997.

In his capacity as chairman of the Centre for Global Energy Studies, he said Opec is currently running 400,000 b/d short of its pledge to reduce production by 1.245m b/d in March.

On London's International Petroleum Exchange Brent blend crude oil for July delivery initially lost a few cents but recovered in later trading to $14.14 a barrel, only 1 cent lower than the previous close. However, traders said volumes were thin and there was little or no buying interest from US investment funds.

The London morning "fix" for gold was $292.60 per troy ounce, $5.35 lower than the previous fix, though slightly improved on the morning's $292.75.

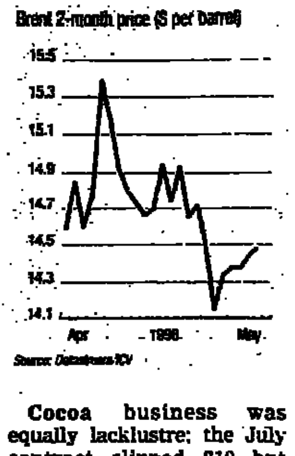
Overnight selling by investment funds in the US was seen as the biggest factor behind the slide.

Further bearish news came from Switzerland, where the federal government approved draft legislation that might pave the way for the Swiss National Bank ultimately to sell some 1,300 tonnes of gold, about 50 per cent of its reserves; although some traders said this expected move had long been factored into the price.

With soft commodities it was again a relatively quiet day on the London International Financial Futures Exchange, where total volume for coffee futures was 4,721 lots, most of which were traded in the morning session. July coffee closed just $1 lower at $1,830 a tonne.

Oil price

Brent 2-month price ($ per barrel)



Source: Datastream/ICV

Cocoa business was equally lacklustre; the July contract slipped £10 but eventually ended the day unchanged at £1,133 a tonne, on volume of 5,744 lots.

Activity on the London Metal Exchange was enervated, with all base metals looking for direction.

Three-month copper traded between $1,640 and $1,678 a tonne before finishing at $1,676, up $14 from Tuesday's close.

Renewed anxiety over the economies of south-east Asia helped depress sentiment.

Brokers GNI said "continued weakness on the yen, which is dragging regional currencies with it, coupled with the austerity package in Russia, labour unrest in South Korea and weakness in the Dow are likely to add to the willingness of the [investment] funds to short the market".

Brazilian bid for inclusion by the CSCE under fire

Other coffee producers fear an extension of the country's hegemony in the world's markets, writes **Jonathan Wheatley**

Brazilian coffee exporters' bid to have their washed arabica beans added to the coffees deliverable against the "C" contract at the Coffee, Sugar & Cocoa Exchange in New York, the main global marketplace for such arabicas, seemed reasonable enough.

However, the move has attracted protests from rival producers, some of which regard it as another extension of Brazilian hegemony in the coffee world and as politically unacceptable.

The Brazilian exporters maintain that their coffee meets the contract's criteria and that Brazilian growers are put at an unfair disadvantage if it is not included in the list. In principle, the CSCE agrees. Its coffee committee has recommended inclusion and its board of managers is receiving and examining comments.

But in practice the issue is not so straightforward. Colombia says Brazilian coffee is of such different quality from that of other countries that it must not be included. Other producers, especially from Central America, say Brazilian coffees would flood the market and push prices down.

Their arguments have some foundation. The inclusion of Brazilian coffees might encourage more Brazilian growers to switch from unwashed to washed arabicas, thereby depressing prices. Brazil is expected to produce about 35m 60kg bags of coffee this year, of which about 1.2m bags will be washed arabicas.

The rest are mostly unwashed arabicas: coffee beans dried in the open air in a process peculiar to Brazil among the big producers.

Such coffees tend to be of a lower quality. They are traded outside the CSCE, though the "C" contract is often used as a benchmark. Most are sold at a discount of as much as 25 cents a bag to the "C" while some command small premiums.

Jorge Esteve, president of Abecafe, one of two rival organisations representing Brazilian exporters, says access to the "C" would have little impact on supply.

"Producing washed arabicas is an option for Brazilian growers whether they are quoted on the CSCE or not," he says, arguing that prices are set in the physical marketplace.

A taste for expansion: Brazil says bigger trading volumes on the CSCE would promote price stability

On the question of quality, he accepts that Brazilian coffees would trade at a discount to the "C" – indeed, the CSCE's coffee committee suggests a discount of 4 cents a bag. He says other objections, that Brazil's inclusion would make prices less stable, are simply wrong: bigger volume would promote stability, especially given the seasonal differences between harvests in the northern and southern hemispheres.

Ruben Pineda, director of El Salvador's coffee council, says the "C" contract was created for coffees of a different quality. He suggests all Brazilian coffees should be traded together on the CSCE in a resurrected version of the extinct "B" contract.

"No, no and no," says Mr Esteve. Unwashed coffees, he maintains, are best traded on Brazil's commodities and futures exchange, the BM&F. It plays a secondary role on global markets, but is working on building its profile.

Some observers see few problems in Brazil's move. "Anything that increases liquidity has to be beneficial for coffee traders," says Lawrence Eagles, head of research at GNI, the UK-based commodities house.

But others suggest producers' fears reflect a reluctance to witness a further extension of Brazilian hegemony in the coffee world.

They say it already dominates the Association of Coffee Producing Countries and the International Coffee Organisation, the industry's big international bodies. To those who already feel overshadowed by Brazil, its access to the "C" would be politically unacceptable.

Whatever the CSCE decides, nothing is expected to change for the next two years. No decision is likely before the end of the year.

Were Brazil to be given the go-ahead, its coffee would not be deliverable before the first month for which there is no open interest – "possibly well into the year 2000", says the CSCE.

But Brazil's march into world markets continues. It has also applied for inclusion on the Tokyo Grain Exchange – a controversial move because, were Brazil to win its case, it would tend to take volume from New York, although Mr Esteve says this does not necessarily follow. He hopes to get the go-ahead by June.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1339.5-40.5	1368-69
Previous	1344.5-5.5	1371-2
High/low		1375/1355
AM Official	1335-35.5	1364-65
Kerb close		1370-71
Open int.	274,148	
Total daily turnover	65,447	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1245-55	1245-55
Previous	1247-52	1253-5
High/low		1245/1240
AM Official	1238-39	1237-40
Kerb close		1240-45
Open int.	7,929	
Total daily turnover	662	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	544.5-5.5	558-9
Previous	554.5-5.0	566-7
High/low		561/558
AM Official	548-49	558-59
Kerb close		560-1
Open int.	36,241	
Total daily turnover	4,914	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4810-15	4895-900
Previous	4810-20	4895-900
High/low		4930/4860
AM Official	4780-90	4870-75
Kerb close		4895-900
Open int.	50,992	
Total daily turnover	12,272	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5930-40	5865-75
Previous	5945-55	5875-80
High/low		5880/5860
AM Official	5940-45	5860-70
Kerb close		5670-75
Open int.	17,243	
Total daily turnover	2,426	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1025-26	1051-52
Previous	1022-3	1048.5-9.0
High/low		1069/1044
AM Official	1022-23	1047-48
Kerb close		1069-70
Open int.	80,967	
Total daily turnover	24,416	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1652.5-53.5	1671.5-72.5
Previous	1656.5-7.5	1675-6
High/low		1678/1643
AM Official	1652-52.5	1669.5-70.0
Kerb close		1676-77
Open int.	173,850	
Total daily turnover	50,810	

■ LME AM Official £/$ rate: 1.6403
LME Closing £/$ rate: 1.6425

Spot: 1.6325 3 mths: 1.6255 6 mths: 1.6198 9 mths: 1.6161

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	75.75	+1.40	75.80	74.20	418	493
Jun	75.90	+1.35	76.00	74.55	208	3,806
Jul	76.30	+1.40	76.50	74.30	4,458	27,865
Aug	76.60	+1.30	76.10	75.45	57	2,200
Sep	76.85	+1.25	77.00	74.90	433	7,443
Oct	77.10	+1.30	76.90	76.90	5	1,709
Total					6,448	67,341

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	293.70-294.20		
Opening	292.60-292.90		
Morning fix	292.60	178.36	427.34
Afternoon fix	292.75	178.86	429.03
Day's High	294.20-294.60		
Day's Low	290.50-290.90		
Previous close	295.70-296.20		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.30	6 months	4.09
2 months	4.27	12 months	3.79
3 months	4.22		

Silver Fix	p/troy oz.	US cts equiv.
Spot	308.80	508.50
3 months	312.90	511.40
6 months	314.34	511.75
1 year	318.25	514.90

Gold Coins	$ price	£ equiv
Krugerrand	296-300	181-184
Maple Leaf	-	-
New Sovereign	70-73	43-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	293.7	-1.7			6	-
Jun	293.7	-1.9	295.4	290.6	49,010	30,893
Aug	296.2	-1.9	297.8	293.5	19,125	39,519
Oct	298.4	-1.9	300.0	297.0	203	5,977
Dec	300.4	-1.9	301.8	298.5	1,815	19,677
Feb	302.1	-1.9	302.5	299.3	12	9,296
Total					70,249	149,778

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	374.1	-5.6	377.0	372.1	1,389	9,630
Oct	372.1	-5.6	375.0	371.0	27	1,363
Jan	369.1	-4.6	-	-	4	52
Apr	366.6	-4.6	-	-	1	14
Total					1,416	11,060

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	313.50	-38.55	345.00	305.00	425	1,208
Sep	290.50	-19.55	310.00	280.00	359	2,361
Dec	282.50	-19.55	-	-	3	407
Total					784	3,976

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	515.8	+6.8	519.0	507.0	22	21
Jul	516.8	+6.3	520.5	499.5	14,140	51,155
Sep	520.4	+6.3	522.0	506.5	518	7,723
Dec	523.0	+6.3	523.5	513.0	532	13,750
Jan	523.8	+6.3	-	-	-	16
Mar	524.5	+6.3	524.0	516.0	10	3,118
Total					15,238	84,669

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	14.94	+0.12	15.07	14.76	49,865	112.5k
Aug	15.41	+0.09	15.52	15.25	15,092	60,298
Sep	15.82	+0.06	15.82	15.69	4,215	39,486
Oct	16.12	+0.01	16.15	16.03	2,354	24,831
Nov	16.41	+0.02	16.53	16.39	902	13,909
Dec	16.62	+0.03	16.67	16.55	2,530	39,277
Total					77,682	441,796

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	14.19	+0.05	14.24	13.99	20,882	80,267
Aug	14.43	+0.07	14.48	14.28	8,010	43,779
Sep	14.69	+0.04	14.76	14.60	1,545	18,891
Oct	14.95	-	15.01	14.88	1,345	12,075
Nov	15.20	+0.04	15.20	15.16	693	9,572
Dec	15.40	-0.05	15.44	15.31	1,413	35,310
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	39.70	+0.31	39.85	39.30	14,389	22,254
Jul	40.60	+0.35	40.75	40.15	13,940	47,288
Aug	41.70	+0.25	41.80	41.35	2,193	18,346
Sep	43.00	+0.15	43.20	42.80	617	12,576
Oct	44.40	+0.15	44.60	44.30	971	12,135
Nov	45.80	+0.30	45.90	45.60	688	10,357
Total					36,336	186,181

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	122.75	+2.75	123.25	121.50	6,714	28,549
Jul	125.75	+2.75	126.50	124.50	4,662	19,061
Aug	129.25	+2.50	130.00	128.50	1,933	12,090
Sep	132.75	+2.25	133.25	132.25	928	11,644
Oct	136.25	+2.00	136.50	136.00	542	15,566
Nov	139.25	+2.00	139.50	139.00	471	9,695
Total					17,398	158,097

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	8.690	+0.020	-	-	-	1,110
Aug	8.650	+0.030	8.650	8.620	55	985
Total					1,320	17,065

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.056	-0.039	2.100	2.040	42,238	22,833
Jul	2.070	-0.046	2.115	2.060	16,256	42,714
Aug	2.125	-0.043	2.165	2.115	3,894	24,646
Sep	2.170	-0.043	2.210	2.160	1,913	17,279
Oct	2.230	-0.040	2.270	2.225	2,298	18,543
Nov	2.405	-0.025	2.430	2.400	1,683	13,115
Total					73,107	266,180

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	49.55	+0.81	49.70	48.65	18,448	21,326
Jul	50.45	+0.65	50.55	49.75	14,412	39,678
Aug	50.95	+0.45	51.10	50.45	5,860	20,418
Sep	50.80	+0.38	50.85	50.55	1,527	13,899
Oct	49.90	+0.23	49.95	49.90	620	5,192
Nov	49.50	+0.18	49.50	49.30	305	1,947
Total					41,586	108,821

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	75.75	-0.25	77.00	75.75	172	1,274
Sep	75.75	-0.25	-	-	-	168
Nov	77.75	-0.25	78.50	78.00	88	3,213
Jan	79.75	-0.25	80.50	79.75	106	712
Mar	81.75	-0.25	82.00	82.00	1	434
Total					368	5,818

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	287.50	-4.75	293.25	282.75	15,460	67,069
Sep	297.00	-5.75	304.00	293.25	2,235	17,902
Dec	312.50	-5.75	319.25	308.50	3,669	25,629
Mar	328.00	-4.00	332.25	322.75	333	5,254
May	333.00	-3.00	335.00	330.00	4	617
Jul	338.50	-7.50	345.00	338.50	25	379
Total					21,722	116,856

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	237.00	-3.50	241.00	236.25	36,012	142,268
Sep	243.50	-3.25	247.25	241.00	5,003	41,653
Dec	247.75	-4.50	253.00	245.75	15,607	126,498
Mar	256.00	-4.25	260.75	254.00	2,064	12,948
May	260.50	-4.50	265.00	259.00	217	2,472
Jul	265.50	-4.00	269.25	263.50	421	6,590
Total					59,652	336,428

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	72.65	+0.15	-	-	-	24
Nov	74.65	+0.15	74.75	74.65	20	814
Jan	76.65	+0.15	-	-	-	182
Mar	78.65	+0.15	-	-	-	42
May	80.15	-0.35	-	-	-	11
Total					20	1,104

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	617.25	-6.25	625.50	614.25	27,857	82,586
Aug	610.25	-8.75	621.00	607.00	2,941	17,776
Sep	596.50	-9.00	606.50	594.00	816	5,249
Nov	589.75	-10.00	601.25	585.50	13,587	51,626
Jan	597.25	-9.50	607.00	594.00	257	4,101
Mar	603.50	-10.00	611.75	602.50	38	1,173
Total					45,498	144,597

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	26.34	-0.37	26.75	26.25	19,629	66,527
Aug	26.45	-0.42	26.88	26.41	5,588	22,386
Sep	26.52	-0.40	26.93	26.48	2,218	16,675
Oct	26.30	-0.48	26.70	26.30	1,593	8,416
Dec	26.08	-0.47	26.48	25.98	3,374	28,819
Jan	26.02	-0.38	26.35	25.95	598	2,505
Total					34,012	147,342

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	154.7	-0.4	156.1	153.5	18,345	60,382
Aug	154.9	-1.0	156.7	153.8	2,468	21,344
Sep	155.4	-1.5	158.0	154.8	959	14,564
Oct	154.2	-2.3	157.5	154.2	692	10,463
Dec	156.6	-2.2	159.5	156.1	2,887	26,421
Jan	157.6	-2.6	161.0	157.5	141	3,242
Total					23,560	139,277

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	130.0	-52.0	-	-	-	-
Nov	80.0	-	-	-	-	3
Mar	122.0	-	-	-	-	-
Apr	162.0	-1.0	165.0	162.0	61	1,630
May	172.0	-1.0	-	-	-	29
Total					61	1,808

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	955	+5	958	955	4	290
Jun	850	-25	880	850	16	103
Jul	850	-5	860	850	10	461
Oct	965	-15	980	965	10	309
Jan	1015	-	1015	1015	5	133
Total					46	1,314

	Close	Prev
BFI	980	960

PULP AND PAPER

■ POLPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	508.00	-4.00	511.00	508.00	36	444
Sep	526.00	-5.00	530.00	525.50	66	523
Total					144	1,161

FUTURES DATA

All futures data supplied by CMS.

Tea from the Tea Brokers' Association Mombasa: Brighter and Medium BP1s appreciated by 10-15 cents but Lower Mediums were easier by 6-8 cents. Plainer sorts were firm but fibrous types were easier. Brighter liquoring PF1s were again substantially dearer, particularly later invoices, while mediums appreciated by 5-20 cents. Lower Mediums opened dearer by 5-17 cents but eased as the sale progressed. CTC quotes for Best BP1s was $2.40-$2.55 and for Best PF1s was $2.83-$3.26. For Best PDs it reached $2.58-$2.79, and for Best D1s $2.40-$2.88.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1120	-1	1117	1117	48	70
Jul	1132	-1	1133	1123	1,775	27,428
Sep	1154	-	1154	1145	1,976	21,268
Dec	1174	+1	1174	1163	945	32,756
Mar	1190	+1	1190	1178	729	37,678
May	1202	+1	1197	1195	68	13,280
Total					5,744	147,832

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1700	-	1710	1695	2,473	25,830
Sep	1723	+1	1732	1720	1,905	16,866
Dec	1751	+1	1758	1747	497	16,228
Mar	1774	+2	1778	1771	693	10,359
May	1789	+2	1787	1787	18	3,899
Jul	1804	+2	-	-	1	1,573
Total					5,586	82,499

■ COCOA (ICCO) (SDR's/tonne)

May 26	Price	Prev. day
Daily	1341.58	1346.06

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1925	-16	1930	1901	216	1,273
Jul	1833	+2	1839	1811	2,797	22,554
Sep	1790	+4	1790	1771	1,524	9,175
Nov	1755	+4	1750	1739	128	2,985
Jan	1720	+1	1710	1710	28	265
Mar	1685	+4	1675	1675	28	357
Total					4,721	38,997

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	130.15	-0.85	132.25	129.75	6,576	15,634
Sep	129.15	-0.60	130.50	128.75	2,159	8,533
Dec	125.00	-0.75	126.25	125.00	409	7,068
Mar	120.90	-0.35	121.60	120.90	77	2,684
May	118.90	-0.35	119.50	118.50	4	1,098
Jul	116.50	-0.75	117.75	116.00	12	771
Total					9,250	36,001

■ COFFEE (ICO) (US cents/pound)

May 26	Price	Prev. day
Comp. daily	113.70	n/a
15 day average	114.74	n/a

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	251.8	+0.3	254.5	247.9	3,421	17,221
Oct	246.8	-1.5	249.5	243.2	1,600	11,731
Dec	249.3	-1.3	252.0	246.8	610	2,029
Mar	254.0	-1.8	258.4	251.1	414	2,654
May	256.5	-2.3	258.0	257.0	23	593
Aug	259.8	-2.5	260.5	259.9	42	290
Total					6,125	34,548

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	8.34	-0.22	8.50	8.23	17,051	74,234
Oct	8.53	-0.27	8.51	8.42	7,250	56,743
Mar	9.12	-0.20	9.24	9.05	2,507	26,770
May	9.15	-0.17	9.22	9.09	103	4,063
Jul	9.15	-0.21	9.27	9.15	106	3,716
Oct	9.15	-0.22	9.28	9.15	29	4,133
Total					27,281	171,412

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	67.88	-0.31	68.80	67.60	11,983	27,613
Oct	70.39	-0.21	70.95	70.05	650	4,474
Dec	71.24	-0.29	71.75	70.95	6,853	36,094
Mar	72.39	-0.31	72.90	72.20	865	7,838
May	72.95	-0.25	73.35	72.90	198	3,673
Jul	73.53	-0.22	73.90	73.75	256	2,317
Total					20,921	85,690

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	108.90	+1.40	109.70	107.10	1,396	21,312
Sep	112.25	+1.55	113.10	110.40	240	6,783
Nov	114.85	+1.55	115.25	113.75	105	4,698
Jan	116.85	+1.95	116.90	116.75	55	2,170
Mar	119.35	+2.15	-	-	-	1,027
May	121.85	+2.35	-	-	-	680
Total					1,741	36,828

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 27	May 26	month ago	year ago
n/a	1634.1	1632.7	1990.7

■ CRB Futures (Base: 1967 = 100)

May 26	May 22	month ago	year ago
215.92	219.13	-	-

■ GSCI Spot (Base: 1970 = 100)

May 26	May 22	month ago	year ago
157.03	158.73	164.33	198.41

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+4,275	to	545,400
Aluminium alloy	-20	to	52,980
Copper	-2,325	to	288,375
Lead	-650	to	106,750
Nickel	-144	to	63,708
Zinc	-3,450	to	436,700
Tin	-65	to	5,445

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	64.425	-0.875	65.200	64.375	5,853	31,650
Aug	66.225	-0.525	66.800	66.175	6,089	32,516
Oct	68.450	-0.600	68.950	66.350	1,802	16,242
Dec	67.850	-0.650	68.450	67.800	617	6,005
Feb	69.000	-0.525	69.500	68.900	214	2,098
Apr	70.100	-0.375	70.500	70.100	20	666
Total					14,588	89,220

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jun	60.250	-1.050	61.500	60.100	2,326	8,862
Jul	59.025	-0.950	60.100	58.800	2,406	9,955
Aug	56.225	-0.775	57.000	55.950	757	6,047
Oct	51.925	-0.500	52.400	51.600	206	3,918
Dec	52.000	-0.225	52.400	51.825	110	3,386
Feb	54.550	-0.300	55.000	54.000	39	778
Total					5,886	33,407

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Jul	47.875	-1.200	50.100	47.550	1,306	4,637
Aug	46.650	-0.525	48.550	46.200	557	1,805
Feb	52.750	-1.500	52.750	52.750	3	5
Total					1,919	6,563

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1350	38	22	78	35
1400	16	50	52	58
1450	5	89	33	86
■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1600	108	146	21	90
1700	50	92	62	94
1800	18	54	130	154
■ COFFEE LIFFE	Jul	Sep	Jul	Sep
1850	49	130	66	190
1900	32	117	99	227
1950	24	105	141	265
■ COCOA LIFFE	Jul	Sep	Jul	Sep
1100	43	75	11	21
1125	29	60	22	31
1150	18	48	38	44
■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1400	52	-	35	60
1450	25	-	-	-
1500	13	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$12.52-2.62r	+0.48
Brent Blend (dated)	$14.75-4.78	+0.52
Brent Blend (Jul)	$14.20-4.23	+0.47
W.T.I.	$14.95-4.97x	+0.50

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$159-161	+2
Gas Oil	$120-121	+2
Heavy Fuel Oil	$64-66	
Naphtha	$123-124	-1.5
Jet fuel	$133-135	+2.5
Diesel	$128-129	+3

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	8.95-9.05	+0.025

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

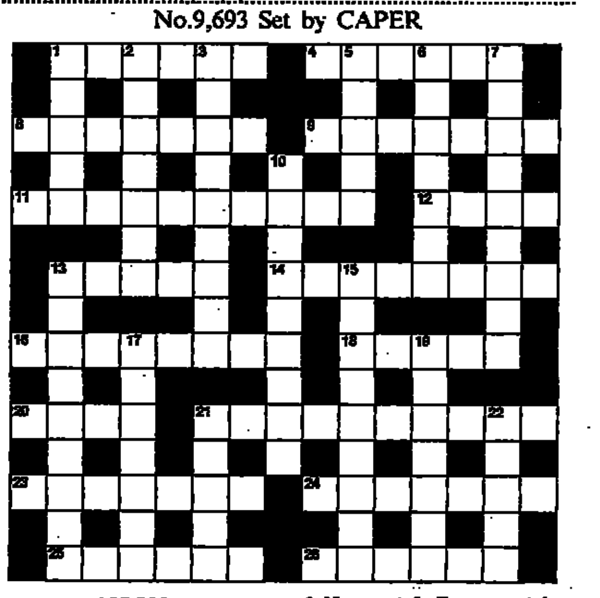
Gold (per troy oz)‡	$293.95	-2.00
Silver (per troy oz)‡	309.50c	-19.50
Platinum (per troy oz.)	$375.00	-3.00
Palladium (per troy oz.)	$338.00	-40.00
Copper	80.0c	-1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	22.54r	+0.03
Tin (New York)	282.5	+1.0
Cattle (live weight)	85.18p	+1.95*
Sheep (live weight)	123.28p	-6.73*
Pigs (live weight)†	65.14p	+1.11*
Lon. day sugar (raw)	$219.40	-6.00
Lon. day sugar (wte)	$274.00	+8.90
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	50.50p	
Rubber (Aug)♥	50.00p	
Rubber (KL RSS No1)	300.50m	-1.00
Coconut Oil (Phil)§	675.0y	-35.0
Palm Oil (Malay.)§	622.5y	-32.0
Copra (Phil)§	$430.0y	-45.0
Soyabeans (US)	171.0	
Cotton Outlook'A' index	65.55	
Wooltops (64s Super)	349p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jun/Jul. x Jul. ♥London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 1,902 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,693 Set by CAPER



ACROSS

1, 4 Distant sailor posted object to journalist (6-6)
8 Charlie Snow's number (7)
9 Primarily hive, or sort of nest – one you wouldn't want to stir up! (7)
11 Lust and greed, for example, send one lady insane on the Sabbath (6,4)
12 Tease old scout (4)
13 Excuse a sudden burst of applause (5)
14 Monkey smashed china cup (8)
16 Helped Jack prepare diets (8)
18 Critical about hospital's situation (5)
20 Member left one thousand roubles at the centre (4)
21 Bad luck Leicester, say (4,6)
23 Gallows brings about the return of large flutters (7)
24 Actress and singer also sent back cigar (7)
25, 26 Society exposed in The Sun? (6,6)
26 See 25

DOWN

1, 13 Too good to be considered guilty I abuse poison, mixing it with cold starter of veal (5,9)
2 Lads vandalised outside toilet – it's a disgraceful thing (7)
3 Nurse at Indian resort has last piece of peanut butter (5-4)
5 Clubs – things good for an evening out? (5)
6 Energetic democrat in charge after many changes (7)
7, 22 Dick's rightwing type of book (9,5)
10 Tar has Dutch ship that's very black (5-4)
13 See 1 down
15 Italian toy boy (9)
17 Drank, primarily, Italian Marsala before insults became extremely discourteous (7)
19 Broadcast heroic and, ultimately, brave farewell (7)
21 Dislikes being heartless, oddly (5)
22 See 7 (5)

Solution 9,692

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DYNAMO HARMONIC
E O O   W E I R
COVERT GARDENIA
A E A M Y I I T
DERISION OCTAVE
E C S R R A N R
NEAT MAGENTA
T L T I S E S P
  MAGNATE ETNA
S P V E A A R L
AVOCET IRONSIDE
R T R A T G A G
DRAINAGE VECTOR
I T E R   L E E
CHOIRMAN MONDAY
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هكذا من الأصل

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Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

BERMUDA (REGULATED)(**)

Bermuda Intl Invest Mgmt Ltd

Butterfield Management Co Ltd

Frontier Investment Mgmt (Bermuda) Ltd

Integral Bond Arbitrage Fund Limited

McKinley Offshore Management Ltd

GUERNSEY (FSA RECOGNISED)

Dresdner RCM Global Investors (Guernsey) Ltd

Lazard Fund Managers (C.I.) Ltd

Lloyds Intl Money Market Fund Ltd

M & G (Guernsey) Ltd

Prudential Fund Managers (Guernsey) Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

Rothschild Asset Management (C.I.) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

BFT Investment Services Limited

Barclays Global Investors Guernsey Ltd

Butterfield Fund Managers (Guernsey) Ltd

CA IB Asset Management (CI) Ltd

CIBC Fund Managers (Guernsey) Ltd

Clariden Investment Mgt (Guernsey) Limited

Collins Stewart Asset Management Ltd

Commercial Union Captives Inv Mgt

Credit Suisse Asset Mgmt (Guernsey) Ltd

Dresdner RCM Global Investors (Guernsey) Ltd

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Explorer Finance Management (Guernsey) Ltd

Guinness Flight Fd Mngrs (Guernsey) Ltd

Long-Invest Capital Ltd

Merrill Lynch Guernsey

Paragon Asset Management Ltd

Rothschild Asset Mgmt (CI) Ltd

Royal Bank of Canada Global Select Fund

Schroder Investment Mgmt (Guernsey) Ltd

Tudor Investment Management (Guernsey) Ltd

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AIB Fund Management Ltd

Aberdeen Prolific International Fund Plc

BT Fund Managers (Ireland) Ltd

Bank of Cyprus Group

Bank of Ireland Asset Management

Edinburgh Unit Trust Managers (Ireland) Ltd

Federated International Funds Plc

Fidelity International Ireland Ltd

GT Global

Lazard Investment Funds Ltd - Contd.

Morgan Grenfell Investment Funds Ltd

Mercury Asset Management

Scottish Widows Management (Ireland) Ltd

Schroder & Friedlander Inv Funds Ltd

Swiss Life Investment Fund

Tilney (Ireland) Ltd

Baring Mutual (Ireland) Ltd

Bordier Invest (Ireland) Ltd

Buchanan Asset Management (Ireland) Ltd

Capital Vision Fund Plc

Dresdner Kleinwort Benson Intl Mgt Srv

Eagle Star European Life Assurance Co Ltd

F&C Investment Trust Ltd

Fidelity Park US Smaller Companies Fund Plc

Foreign & Colonial Emerging Markets Ltd

Franklin Templeton Investment Mgmt (Ireland) Ltd

INVESTORS Fund Services (Ireland) Ltd

Legal & General (Pacific Mgt Services) Ltd

Lehman Bros./GLG Partners Asset Mgmt Ltd

Morgan Grenfell Cash & Money Market Plc

Old Mutual Fund Managers (Ireland) Limited

Orient Balanced Fund Plc

Pacific 21st Century Fund

PaineWebber Offshore Funds Plc

Pictet Asset Management (Ireland) Ltd

Prudential-Bache Fund Plc

Rothschild Asset Management (Ireland) Ltd

IRELAND (REGULATED)(**)

ABN AMRO Global Liquidity Funds Plc

AIB Capital Funds Plc

Frank Russell Investments (Ireland) Ltd

Gartmore Korea Fund Plc

Global Euro-Asia Investment

Goldman Sachs

Irish Life International Global Funds Plc

Stenham Asset Management

Value Express Fund Plc

The Korea Investment Company PLC

Warburg Pincus Funds Plc

ISLE OF MAN (FSA RECOGNISED)

Alliance and Leicester International Fund PLC

Allied Dunbar Intl Fund Mgrs

Ashburton Global Funds

Bank of Ireland Asset Mgmt (IOM) Ltd

Irish Permanent Fund Managers (IoM) Ltd

Mercury Fund Managers Intl Ltd

Old Mutual Intl Fd Managers (Isle of Man) Ltd

Sarasin Fund Managers (Isle of Man)

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City Financial Admin (IoM) Ltd

Neville James Fund Managers Limited

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SHM Fund Managers Ltd

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JERSEY (FSA RECOGNISED)

AIB Fund Managers (CI) Ltd

AIB Govett (Channel Islands) Limited

Barclays International Funds

Fleming Fund Managers (Jersey) Ltd

Guinness Flight Fund Mgrs (Jsy) Ltd

HSBC Fund Managers (Jersey) Ltd

Jardine Fleming Funds

Lloyds Bank (CI) U/T Mgrs

Lloyds TSB Fund Managers (CI) Ltd

Mercury Fund Managers (Jersey) Ltd

Prolific Fund Managers (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Standard Bank Fund Mngmt (Jersey) Ltd

JERSEY (REGULATED)(**)

ABSA Offshore Fund Managers (Jersey) Ltd

AIB Govett Management (Jersey) Limited

Bank of Ireland Asset Mngmt (Jersey) Ltd

Bank of Scotland Fund Managers (Jersey) Ltd

Barclays Global Investors Jersey Ltd

Ceiba Allen Investment Management (CI)

Citibank (CI) Ltd

Coutts (Jersey) Fund Managers Ltd

EBC Fund Managers (Jersey) Ltd

Fleming Group

Foreign & Colonial Mngmt (Jersey) Ltd

Henderson Fund Managers (Jersey) Ltd

INVESCO International Limited

Investec Management Co (Jersey) Limited

Jupiter Asset Management (Jersey) Ltd

Lazard Fund Administration Services (CI) Ltd

Lazard Investment Funds (CI) Ltd

Liberty International Asset Management Ltd

Lloyds Private Banking (CI) Ltd

Lombard Odier (Jersey) Ltd

Mercury Asset Management Channel Islands Ltd

Midland Bank Fund Managers (Jersey) Ltd

Morgan Grenfell Intl Mngt (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Save & Prosper International

Standard Bank Fund Mngmt (Jersey) Ltd

TSB Fund Managers (CI) Ltd

Worldwide (Managers) Jersey Ltd

LUXEMBOURG (FSA RECOGNISED)

ABN AMRO Funds (s)

Aberdeen Fund Mgrs (Luxembourg) Ltd (s)

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 404646211

Bank Von Ernst & Cie AG

Marktgasse 63/65, 3001 Bern, Switzerland 0041 313291111

Foreign & Colonial Emerging Markets Ltd (u)

Foreign & Colonial Portfolios Fd Sicav (u)

47 Boulevard Royal, L-2449 Lux 00 352 4640101

Frontrunner I (u)

GT Global

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

OFFSHORE INSURANCES

هكذا من الأصل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Royal & Sun Alliance Intl Financial Services

Atlantis Fund Management (Guernsey) Ltd

Royal Skandia Life Assurance Ltd (z)

Julius Baer Bank & Trust Co Ltd

Banco do Brasil—BB Fund

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Allied Domecq	†N	608½xd	-4½	646	407½	4,282	4.1	14.8
Bulmer (HP)	†	357½	—	592½	295	-	5.2	11.1
Burn Stewart		21	—	78½	19½	9	10.1	-
Diageo		718xd	-16½	764	434	6,547	2.4	32.1
Glenmorangie A		780	—	980	775	116	3.3	♣
B		902½	—	1000	900	-	1.0	♣
Highland	†	285½xd	-1	347	238	268	3.7	14.2
5¼pc Cv Sb Bd		98	—	98½	85½	-	5.9	-
Kirin Y		565½	-7½	654½	416½	-	0.9	-
Matthew Clark		202½	-6	277½	157	216	12.3	6.5
Mcmydown		32	-½	109½	37½	-	7.5	-
Seagram C$		526½	-½	526¼	218½	-	1.0	-

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CONSTRUCTION

[illegible]

CONSTRUCTION - Continued

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Continued

[illegible]

ENGINEERING, VEHICLES

[illegible]

ENGINEERING, VEHICLES - Continued

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Continued

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS & TEXT

[illegible]

INSURANCE

[illegible]

INSURANCE - Continued

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Continued

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

هدية من الأهرام

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MEDIA - Continued

PHARMACEUTICALS - Continued

RETAILERS, GENERAL - Continued

TRANSPORT - Continued

AIM - Continued

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

PROPERTY

SUPPORT SERVICES

WATER

OIL EXPLORATION & PRODUCTION

AIM

AMERICANS

INVESTMENT COMPANIES

CANADIANS

OIL, INTEGRATED

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		£18¼	-¼	*£19⅞	£10⅛	-	3.7	10.1
Barlow R	♣	95½	-½	£9⅞	£4⅞	-	2.8	13.6
Gold Flds Prop R		118	-½	197	98¼	-	6.5	12.8
SA Breweries R		£17¼	-¼	£22¼	£13¾	-	2.3	ϕ
Standard Bank R		£36¼	-¼	£39⅞	£22¾	-	1.5	-
Tiger Oats		875	-40	1100	780	-	2.1	17.7
Tongaat-Hulett R		683¼	-16½	788	563	-	2.5	15.0

OTHER FINANCIAL

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	52 week low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRANS		£5800xd	—	£61200	£472	-	-	-

LEISURE & HOTELS

PROPERTY - Continued

SUPPORT SERVICES - Continued

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ▪ Price at time of suspension
- , Indicated dividend yield after pending scrip and/or rights issue
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other offical estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. i Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment. F Yield based on prospectus or other offical estimates for 1998-99. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other offical estimates for 1997. K Yield based on prospectus or other offical estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other offical estimates for 1997-98. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). R Forecast annualised yield, p/e based on prospectus or other offical estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

LIFE ASSURANCE

TELECOMMUNICATIONS

RETAILERS, GENERAL

♣ FT Free Annual Reports Club

You can obtain the current annual/interim report of any companies annotated with the ♣. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports may also be ordered via the internet at http://www.icbinc.com. All reports will be sent the next working day, subject to availability.

FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However ShareFinder company reports, incorporating current and historic financial information, key performance data and consensus recommendations, may still be purchased by calling 0870 601 4600.

MEDIA

TOBACCO

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details. Calls are charged at 50p per minute at all times.

An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

All access to and use of FT Cityline is subject to FT Cityline terms and conditions - your copy will be sent free on request. Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

PHARMACEUTICALS

TRANSPORT

LONDON STOCK EXCHANGE

Footsie succumbs to worldwide equity sell-off

MARKET REPORT

By Philip Coggan, Markets Editor

The wave of selling that swept around world stock markets caused share prices in London to capsize yesterday, prompting the first three-figure fall in the FTSE 100 index for a month.

Shares were on the defensive from the outset: Wall Street's 150-point fall on Tuesday was followed by a drop of more than 5 per cent in Hong Kong, as worries mounted about a recession in the former British colony.

During the day, there were further worries from Russia, where the central bank tripled interest rates in order to defend the rouble, and from other European bourses, which dropped by 2-3 per cent.

Mervyn King, the Bank of England's chief economist, did not help sentiment by saying to the Building Societies Association conference that there was "a risk that consumption may prove stubbornly buoyant" and by referring to recent average earnings numbers as "undoubtedly disappointing".

The comments increased investor nervousness before next week's monetary policy committee meeting. In April, Mr King was one of the three MPC members to vote for a rate increase.

Mr King's comments weighed on the gilt market, which finished slightly lower on a day when world bond markets were generally benefiting from the "safe haven" effect.

As the final straw for London, Wall Street opened sharply lower once more, with the Dow Jones Industrial Average falling more than 90 points in the first 10 minutes. A rally failed to hold and at the London close the Dow was 115 points lower. The world market seemed to be feeding on itself, with weakness in one region being passed on to another.

All this bad news meant that, once the UK market had dropped 100 points after the first hour of trading, it showed a three-figure loss for most of the day. At its worst, Footsie was 133.8 points lower at 5,836.9. By the close, the loss was 100.5 to 5,870.2.

Even the FTSE 250 and SmallCap indices, which have repeatedly outperformed the Footsie in recent sessions, suffered in the carnage. The SmallCap shed 19.5 to 2,773.2. The 250 index lost 40.1 to 5,880.8, but still finished higher than the 100 index for the first time since May 1997.

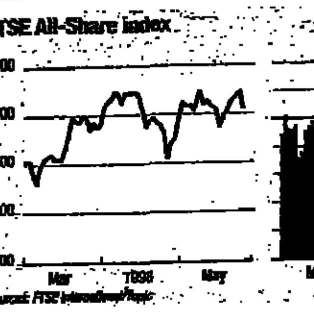
Richard Crehan, UK strategist at Morgan Stanley, said Footsie seemed to be stuck in a 5,800-6,000 range. "A lot of people anticipated a market advance to 6,000 this year, but it got there within four to five months. Interest rates look likely to be flat for a while and until we see a significant event, it is hard to see what will drive prices out of the range."

Individual company movements were swamped by the overall market fall, although two index entrants – Halifax, which is just about to join the MSCI, and Misys, which recently qualified for the Footsie – managed to rise against the market trend.

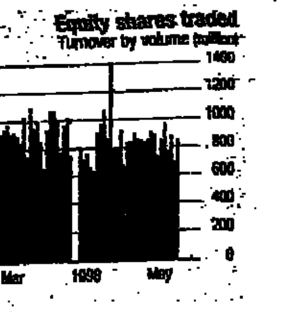
Banks, notably HSBC and Standard Chartered, the two with strong Asian links, were among those taking the biggest hits.

Volume was 858.8m by 6pm, of which 53 per cent was in non-Footsie stocks.

FTSE All-Share index



Equity shares traded
Turnover by volume (million)



Source: FTSE International/Topic

Indices and ratios

FTSE 100	5870.2	−100.5	FT 30	3854.3	−45.8
FTSE 250	5880.8	−40.1	FTSE Non-Fins p/e	23.43	23.66
FTSE 350	2862.3	−43.2	FTSE 100 Fut Jun	5996.0	+0.0
FTSE All-Share	2800.20	−40.64	10 yr Gilt yield	5.77	5.77
FTSE All-Share yield	2.80	2.76	Long gilt/equity yld ratio	2.11	2.14

Best performing sectors

1 Chemicals .... +0.3
2 Household Goods & Text .... +0.1
3 Telecommunications .... −0.1
4 Construction .... −0.1
5 Building Mats & Merch .... −0.2

Worst performing sectors

1 Other Financial .... −2.9
2 Pharmaceuticals .... −2.9
3 Insurance .... −2.6
4 Electronic & Elec .... −2.4
5 Banks: Retail .... −2.3

Airtours loses height

COMPANIES REPORT

By Steve Thompson and Peter John

Airtours, the travel group, was given a thorough shaking in the market after revealing disappointing interims and worrying news about trading.

Interim losses are a common feature for holiday groups because of the cyclical nature of the sector.

Analysts said they expected to reduce their current-year estimates by about 8 per cent.

The shares finished 35 lower at 486½p.

Buying interest built up substantially in Granada, the leisure and hotels group, whose shares made gradual progress to finish the session 16 firmer at £11.35 amid increasing speculation that the company might be about to reveal an acquisition. "Focused acquisitions are viewed as market positive," said one specialist.

Misys was one of a host of software stocks making further rapid progress in the market. The first software group to be included in the FTSE 100, Misys shares were rampant up until inclusion, only to fall away as investors took profits. But many dealers regard the shares as oversold; they closed 166 higher at £35.34.

Halifax topped the list of Footsie performers ahead of the stock's inclusion in an index of the world's leading companies. The shares jumped 48 to 923p in spite of reports of a failed merger approach to Royal Bank of Scotland.

Halifax will be added to Morgan Stanley's index of the world's 1,575 leading companies at the close of trade on Friday. Analysts said trade was active as institutions tried to top up holdings.

Meanwhile, Royal Bank of Scotland rose in earlier trading but ended the day 5 lower at £10.25.

Heavily weighted banks led the FTSE down with Barclays shedding 42 to £16.50 and Abbey National off 12 at £10.64.

HSBC, with its heavy Hong Kong exposure, lost 109 at £15.31 and Standard 40½ to 772p. Schroders fell 145p to £17.10.

Support services group Rentokil Initial rose 2 to 417p as investors took advantage of Tuesday's losses in the stock and bought the shares in the hope of the company returning superior earnings growth.

Analysts said Rentokil shares had been buoyed by the company's ability to fulfil its pledge of 20 per cent earnings growth per year. Earlier in the week Panmure Gordon published a big "sell" note on the company.

Oil shares were comparatively solid as oil prices recovered slightly on optimism about the forthcoming meeting of the 11-member Organisation of Petroleum Exporting Countries. Former Saudi oil minister Sheikh Yamani said Opec would have to cut output again to stabilise prices when it meets in Vienna next month.

A speech by Mr Yamani said that if Opec wanted to stabilise Brent at around $14 a barrel, it would have to restrain output to 27m barrels a day. A survey for April pegged output at around 28.2m barrels per day.

BP fell 5½ to 923½p, Shell Transport dropped 7¼ to 445½p and Lasmo, which has been buoyed by its exposure to potential in the Falkland Islands, slipped 2 to 295½p. Lasmo announced further encouraging drilling success in its operations in Pakistan and Libya, the former finding new gas reserves and the latter more oil.

Desire Petroleum, the London market's latest hot stock, with intense speculation about its drilling operations off the coast of the Falkland Islands, encountered a fresh dose of profit-taking to finish the day a net 67½ lower at 377½p. Volume in Desire was 771,000 shares.

Water rising

Anglian Water bucked the trend as it launched the water and sewerage company's results with a slight rise in profits and a 13 per cent dividend increase.

The shares closed marginally higher at 865½p after the company boosted its total dividend to 39p per share. It also announced that profits for the year to March of £267.8m were up from £257m and within expectations.

Analysts were further enthused by the company's plan to return up to 8 per cent of its capital to shareholders in the form of a "B" share issue to compensate on its balance sheet for the effect of 13.6m warrants maturing in August and an enhanced scrip dividend offer.

The city had expected the sector to keep a low profile in the current spate of results as a new structure for price caps is currently under discussion with industry regulator Ofwat and should be implemented in 2000 for five years.

South West Water and Yorkshire Water, which also report annual results this week, edged higher, South West by a penny to 956p and Yorkshire by 3 to 476p.

Mining group Billiton dropped another 3¼ to 152¼p as a large line of stock continued to overhang the market following an attempted placing by Dresdner Kleinwort Benson.

The broker bought about 4.8 per cent in Billiton recently from Sanlam, the South African mutual insurer, and undertook a placing with institutional clients. It was reported that it had not placed all of the stock and was understood to be holding around 60m shares.

A spate of results and trading news from the retail arena saw Kingfisher down 7 at £10.83, after the 5.9 per cent increase in sales during the first quarter.

Allders edged up 3 to 239p on news of the almost 5 per cent lift in sales in the first seven weeks of the trading year.

BAA gave a belated positive response to the 18 per cent lift in annual profits, the shares up 11 to 674p.

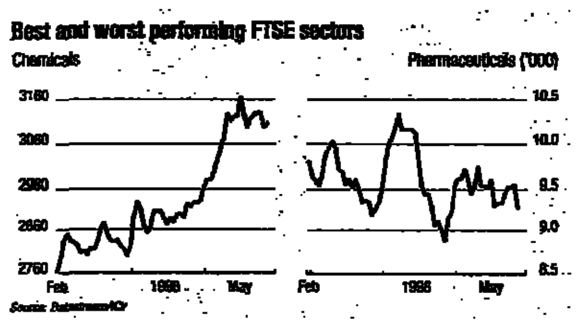
British Airways lost 13½ to 636½p in the wake of preliminary figures showing profits down an expected 9 per cent, badly affected by sterling's performance over the past year and more.

Cigarette maker Gallaher eased to 309¼p as the company told shareholders that sales fell in the domestic cigarette market by more than 4 per cent during the first three months of this year.

Chairman Peter Wilson said he believed the market "may well be roughly flat," because "bootlegging" of tobacco from mainland Europe, where government taxes are much lower than in Britain, remains a "significant issue".

Best and worst performing FTSE sectors

Chemicals — Pharmaceuticals ('000)



Source: Datastream/ICV

FT 30 INDEX

	May 27	May 26	May 22	May 21	May 20	Yr ago	*High	*Low
FT 30	3854.3	3900.1	3868.9	3883.7	3867.7	3000.5	3920.3	3830.5
Ord. div. yield	2.87	2.84	2.84	2.85	2.86	3.66	4.22	2.79
P/E ratio net	23.99	24.27	24.20	24.16	24.04	18.14	25.41	15.80
P/E ratio nil	23.78	24.06	23.98	23.94	23.83	17.96	25.19	15.71

FT 30 since compilation: high 3920.3 11/05/98, low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3899.7	3853.1	3842.9	3835.2	3843.9	3843.0	3838.2	3848.4	3848.8	3900.1	3830.5

STOCK MARKET TRADING DATA

	May 27	May 26	May 22	May 21	May 20	Yr ago
SEAQ bargains	76,010	67,625	61,675	62,886	63,559	42,622
Equity turnover (£m)†	-	-	-	-	3054.6	2370.0
Equity bargains†	-	-	-	-	52,946	39,418
Shares traded (m)†	-	-	-	-	748.9	703.4
Total market bargains‡	-	70,253	62,107	64,211	66,267	-
Total turnover (£m)‡	-	9032.9	3643.7	4141.1	4268.8	-
Total shrs traded (m)‡	858.8*	976.7	903.8	982.3	994.9	-
Tradepoint turnover (£m)	33.2	26.3	27.1	24.2	32.9	2.3
Tradepoint shrs traded	11,040	7,7087	6,301	6,018	7,421	405

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	385	Total Highs	150	Total contracts	22,635
Total Falls	1,339	Total Lows	66	Calls	10,855
Same	1,276			Puts	11,780

May 27 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5880.0	5860.0	-125.0	5900.0	5850.0	27264	157528
Sep	5967.0	5936.0	-126.5	5971.5	5943.0	2205	12699
Dec	-	6018.0	-130.0	-	-	0	250

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	5910.0	5900.0	-50.0	5910.0	5900.0	1674	6678
Sep	5995.0	5995.0	-	5995.0	5995.0	1115	0

■ FTSE 100 INDEX OPTION (LIFFE) (*5880) £10 per full index point

	5700 C	5700 P	5750 C	5750 P	5800 C	5800 P	5850 C	5850 P	5900 C	5900 P	5950 C	5950 P	6000 C	6000 P	6050 C	6050 P
Jun	241	83½	204	95½	172½	115	143	135½	113½	157	91	185½	67½	215	52	250½
Jul	318½	133	285½	151½	257	172	228	193	198½	215	172½	241	151	270	138	300
Aug	385½	180½	358	208	326	228½	296½	248	267	268	238½	292	218	319½	196	348
Sep	447	225½	416½	244	386½	263½	358½	282½	327	302½	297	324	274½	350½	252½	378
Dec†	613	303			551	340½			494½	380			425	424½		

Calls 2,817 Puts 3,600

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	5675 C	5675 P	5725 C	5725 P	5775 C	5775 P	5825 C	5825 P	5875 C	5875 P	5925 C	5925 P	5975 C	5975 P	6025 C	6025 P
Jun	259½	75½	223½	89	190	105½	158	124½	131	146	106	171	84	198½	65½	229½
Jul	340½	129½	308½	145	274	162	243	180½	214	201½	187	223½	162	248	138	274½
Aug	407½	181½	374½	198	343	215½	313	234½	284½	255	257½	277	232	300½	208	326
Sep			431½	225			371	263			313½	302½			282	349
Dec†			580½	298½			519½	334½			460	371			497	413½

Calls 2,582 Puts 6,077 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1998 High	1998 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
[illegible]											
-	F.P.	0.54	25	25	Hastings B	25		-	-	-	-
§180	F.P.	52.4	292½	182½	SM Computer	275	-3½	L2.63	2.6	1.2	40.3
§325	F.P.	22.0	400	330	†Inter-Alliance	400	+2½	-	-	-	-
§193	F.P.	28.6	160	114½	JWE Telecom	147½	-5½	W1.54	3.9	1.3	24.7
-	F.P.	115.7	94½	72½	London Africa	73½	-9	L2.3	4.2	3.9	7.8
-	F.P.	234.4	280	272½	Malalan	280	+½	L5.0	2.5	2.2	22.5
*	F.P.	-	100	100	Perdisa Dung VCT	100		-	-	-	-
-	F.P.	-	140½	138½	Taiwan IT GDR	140	-½	-	-	-	-
§200	F.P.	153.6	248½	203½	Taylor & Francis	237½	-2½	L3.0	2.4	1.6	29.2
§170	F.P.	1,905	200	190½	Thomson Travel	190½	-3	W2.8	2.9	1.8	27.2

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FTSE GOLD MINES INDEX

	May 26	% chg on day	May 25	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1132.46	−4.2	1182.82	1559.36	2.11	–	1598.47	891.23
■ Regional Indices								
Africa (14)	1277.59	−2.1	1305.39	1751.14	4.20	139.02	1751.21	921.78
Australasia (7)	1361.81	−0.3	1365.40	1766.04	2.44	380.34	1767.42	933.63
North America (11)	1071.63	−5.7	1135.85	1486.40	1.17	143.89	1574.16	864.86

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	May 27	Day's chge%	May 26	May 22	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	5870.2	-1.7	5970.7	[illegible]							
FTSE 250	5880.8	-0.7	[illegible]								
FTSE 250 ex IT	[illegible]										
FTSE 350	[illegible]										
FTSE 350 ex IT	[illegible]										
FTSE 350 Higher Yield	[illegible]										
FTSE 350 Lower Yield	[illegible]										
FTSE SmallCap	[illegible]										
FTSE SmallCap ex IT	[illegible]										
FTSE All-Share	[illegible]										
FTSE All-Share ex IT	[illegible]										

■ FTSE Actuaries Industry Sectors

	May 27	Day's chge%	May 26	May 22	Year ago	Gross yield%	Net yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 RESOURCES(22)	[illegible]										
12 Extractive Industries(8)	[illegible]										
15 Oil, Integrated(4)	[illegible]										
16 Oil Exploration & Prod(12)	[illegible]										
20 GEN INDUSTRIALS(229)	[illegible]										
21 Construction(38)	[illegible]										
22 Building Matls & Merchs(27)	[illegible]										
23 Chemicals(24)	[illegible]										
24 Diversified Industrials(10)	[illegible]										
25 Electronic & Elect Equip(29)	[illegible]										
26 Engineering(68)	[illegible]										
27 Engineering, Vehicles(16)	[illegible]										
28 Paper, Pckg & Printing(23)	[illegible]										
30 CONSUMER GOODS(92)	[illegible]										
32 Alcoholic Beverages(8)	[illegible]										
33 Food Producers(25)	[illegible]										
34 Household Goods & Texts(24)	[illegible]										
36 Health Care(14)	[illegible]										
37 Pharmaceuticals(20)	[illegible]										
38 Tobacco(2)	[illegible]										
40 SERVICES(277)	[illegible]										
41 Distributors(29)	[illegible]										
42 Leisure & Hotels(35)	[illegible]										
43 Media(41)	[illegible]										
44 Retailers, Food(13)	[illegible]										
45 Retailers, General(46)	[illegible]										
46 Telecommunications(10)	[illegible]										
47 Breweries, Pubs & Rest.(24)	[illegible]										
48 Support Services(52)	[illegible]										
49 Transport(25)	[illegible]										
60 UTILITIES(33)	[illegible]										
62 Electricity(8)	[illegible]										
64 Gas Distribution(2)	[illegible]										
68 Water(13)	[illegible]										
69 NON-FINANCIALS(633)	[illegible]										
70 FINANCIALS(108)	[illegible]										
71 Banks, Retail(12)	[illegible]										
73 Insurance(17)	[illegible]										
74 Life Assurance(6)	[illegible]										
77 Other Financial(26)	[illegible]										
79 Property(46)	[illegible]										
80 INVESTMENT TRUSTS(119)	[illegible]										
89 FTSE All-Share(857)	[illegible]										
105 FTSE All-Share ex IT(742)	[illegible]										
Information Technology	[illegible]										
FTSE Fledgling	[illegible]										
FTSE Fledgling ex IT	[illegible]										
FTSE AIM	[illegible]										

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										
FTSE SmallCap	[illegible]										
FTSE All-Share	[illegible]										

[illegible]

TRADING VOLUME

■ Major Stocks yesterday.

	Vol 000's	Closing price	Day's change
3i	462	625	−10
AMVESCAP	1,300	659	−12½
[illegible]			

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 27 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (May 27 / Frs.)

[illegible]

CZECH REP (May 27 / Koruna)

[illegible]

DENMARK (May 27 / Kr)

[illegible]

FINLAND (May 27 / Mka)

[illegible]

FRANCE (May 27 / Frs.)

[illegible]

GERMANY (May 27 / Dm.)

[illegible]

GREECE (May 27 / Drachma)

[illegible]

ITALY (May 27 / Lire)

[illegible]

NETHERLANDS (May 27 / Fls.)

[illegible]

NORWAY (May 27 / Kroner)

[illegible]

SWEDEN (May 27 / Kronor)

[illegible]

POLAND (May 27 / Zloty)

[illegible]

PORTUGAL (May 27 / Escudo)

[illegible]

SPAIN (May 27 / Pts.)

[illegible]

SWITZERLAND (May 27 / Frs.)

[illegible]

TURKEY (May 27 / Tk Lira)

[illegible]

PACIFIC

JAPAN (May 27 / Yen)

[illegible]

AUSTRALIA (May 27 / Aus$)

[illegible]

HONG KONG (May 27 / H.K.$)

[illegible]

INDONESIA (May 27 / Rupiah)

[illegible]

MALAYSIA (May 27 / MYR)

[illegible]

NEW ZEALAND (May 27 / NZ $)

[illegible]

SINGAPORE (May 27 / S$)

[illegible]

SOUTH KOREA (May 27 / Won)

[illegible]

TAIWAN (May 27 / TW $)

[illegible]

THAILAND (May 27 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (May 27 / Rand)

[illegible]

AMERICAS

CANADA

TORONTO (May 27 / Can $) 4 pm close

[illegible]

MONTREAL (May 27 / Can $) 4 pm close

[illegible]

MEXICO (May 27 / Peso) 12.30 pm

[illegible]

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 26 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 25 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	198.26	-0.4	179.62	172.85	182.65	212.17	0.2	3.74	199.06	181.29	172.54	182.88	211.78	243.87	190.26	233.72
Austria (23)	253.73	0.8	229.88	221.21	233.76	233.62	1.1	1.41	251.61	229.16	218.09	231.17	231.04	253.73	181.60	200.52
Belgium (26)	357.37	0.6	323.78	311.57	329.24	322.02	0.9	2.25	355.09	323.40	307.78	326.23	319.05	357.37	234.33	254.98
Brazil (26)	206.79	-5.2	187.35	180.28	190.51	438.87	-5.1	2.32	218.17	198.70	189.11	200.45	462.63	322.44	184.94	261.55
Canada (120)	242.37	-2.4	219.58	211.30	223.29	255.41	-2.0	1.57	248.26	226.11	215.19	228.09	260.54	248.78	199.10	209.45
Denmark (34)	511.69	0.0	463.60	446.11	471.42	469.71	0.2	1.29	511.76	466.09	443.59	470.18	468.58	521.81	375.32	390.15
Finland (28)	443.99	0.4	402.26	387.09	409.04	501.77	0.7	1.82	442.14	402.68	383.24	406.21	498.40	451.12	267.45	278.41
France (79)	328.64	0.0	297.75	286.52	302.77	308.37	0.3	1.92	328.60	299.27	284.82	301.90	305.51	328.64	213.42	221.72
Germany (58)	303.12	0.9	274.63	264.27	279.26	279.26	1.2	1.18	300.46	273.64	260.43	276.05	276.05	303.12	204.89	216.90
Greece (37)	300.61	-2.4	272.36	262.09	276.95	655.01	-1.7	1.41	307.94	280.45	266.91	282.91	666.45	307.94	264.68	–
Hong Kong, China (66)	285.43	-0.3	258.60	248.85	262.96	283.89	-0.3	5.58	286.39	260.83	248.24	263.12	284.90	580.08	262.93	517.94
Indonesia (27)	38.28	2.2	34.69	33.38	35.27	241.91	-2.1	2.92	37.47	34.12	32.48	34.42	247.09	254.90	27.26	227.01
Ireland (16)	521.11	-1.2	472.13	454.33	480.10	516.71	-1.0	1.89	527.37	480.30	457.11	484.51	521.79	560.44	336.68	348.68
Italy (54)	174.10	0.2	157.74	151.79	160.40	227.16	0.4	1.23	173.75	158.25	150.61	159.64	226.19	177.15	86.93	89.65
Japan (480)	93.20	-0.1	84.44	81.25	85.86	81.25	0.5	0.97	93.25	84.93	80.83	85.67	80.83	141.12	88.52	131.57
Malaysia (107)	158.91	-2.0	143.97	138.54	146.40	234.73	-1.5	2.75	162.08	147.62	140.49	148.91	238.30	541.84	113.56	531.12
Mexico (29)	1451.45	-3.8	1315.02	1265.43	1337.21	13790.51	-3.1	1.77	1508.73	1374.08	1307.74	1386.14	14237.45	1901.98	1405.17	1433.79
Netherlands (19)	529.83	-0.6	480.03	461.93	488.13	482.94	-0.3	1.92	532.74	485.19	461.77	489.45	484.25	532.74	369.56	382.16
New Zealand (14)	69.59	1.9	63.05	60.67	64.11	69.20	1.2	4.72	68.29	62.19	59.19	62.74	68.36	96.47	67.95	88.45
Norway (38)	323.73	-0.9	293.30	282.24	298.25	328.58	-0.6	1.91	326.77	297.60	283.24	300.22	330.68	374.64	281.62	315.84
Philippines (22)	93.30	-0.9	84.53	81.34	85.95	179.47	-0.9	1.16	94.11	85.71	81.57	86.46	181.03	173.10	57.54	158.79
Portugal (18)	291.55	-0.8	264.14	254.18	268.60	362.19	-0.5	1.05	293.80	267.58	254.66	269.93	364.02	298.39	276.07	–
Singapore (42)	181.99	-0.6	164.88	158.66	167.66	138.75	-0.3	2.19	183.15	166.81	158.75	168.27	139.16	401.75	144.01	391.15
South Africa (43)	298.93	-1.4	270.83	260.62	275.40	334.10	-2.0	2.70	303.25	276.19	262.85	278.61	340.79	364.24	227.66	354.49
Spain (31)	396.60	-0.5	359.32	345.77	365.38	452.22	-0.2	1.69	398.54	362.97	345.45	366.15	453.23	398.54	236.28	260.41
Sweden (49)	611.47	-0.6	553.99	533.10	563.34	702.21	-0.1	1.67	615.21	560.30	533.25	565.22	703.04	615.21	439.98	467.15
Switzerland (30)	414.95	0.9	375.95	361.77	382.29	378.78	0.9	1.06	411.13	374.43	356.36	377.72	375.39	414.95	285.85	299.90
Thailand (38)	21.73	-1.2	19.69	18.94	20.02	33.12	-1.2	8.27	22.00	20.04	19.07	20.21	33.52	69.09	13.10	61.51
United Kingdom (207)	385.50	0.8	349.26	336.09	355.16	349.26	0.3	2.82	382.47	348.34	331.52	351.39	348.34	401.84	293.10	301.56
USA (634)	446.35	-1.5	404.40	389.15	411.22	446.35	-1.5	1.44	452.95	412.52	392.61	416.14	452.95	462.18	340.47	342.72
Americas (809)	403.57	-1.6	365.64	351.85	371.81	341.21	-1.5	1.46	409.93	373.34	355.32	376.62	346.50	418.95	311.99	313.90
Europe (747)	367.09	0.4	332.59	320.05	338.20	345.96	0.4	1.94	365.70	333.06	316.98	335.98	344.66	367.09	256.75	264.78
Eurobloc (352)	106.34	0.2	108.27	110.23	105.91	105.94	0.4	1.60	106.16	108.66	109.41	105.44	105.48	106.34	100.00	–
Nordic (143)	531.26	-0.4	481.32	463.17	489.44	534.38	0.0	1.66	533.19	485.60	462.16	489.86	534.20	536.56	386.48	401.56
Pacific Basin (968)	101.33	-0.1	91.80	88.34	93.35	88.63	0.4	1.69	101.47	92.41	87.95	93.22	88.31	158.99	95.32	150.21
Euro-Pacific (1615)	212.11	0.2	192.17	184.92	195.41	185.84	0.4	1.87	211.61	192.72	183.42	194.41	184.95	216.04	172.03	198.00
North America (754)	433.41	-1.5	392.67	377.86	399.30	433.58	-1.5	1.45	440.01	400.73	381.39	404.25	440.10	448.61	332.46	334.64
Europe Ex. UK (540)	345.25	0.2	312.80	301.00	318.07	333.59	0.4	1.52	344.60	313.85	298.70	316.60	332.16	345.25	230.16	238.88
Europe Ex. Eurobloc (395)	100.08	0.6	101.90	103.75	99.68	101.09	0.3	2.29	99.48	101.82	102.53	98.80	100.77	100.97	96.35	–
Europe Ex. UK Ex. Eurobloc (188)	104.20	0.3	106.09	108.02	103.78	103.61	0.4	1.29	103.93	106.37	107.11	103.22	103.17	104.20	99.32	–
Pacific Ex. Japan (388)	177.75	-0.4	161.05	154.97	163.76	182.61	-0.2	4.29	178.53	162.60	154.75	164.03	183.02	318.98	161.31	310.33
World Ex. Eurobloc (2115)	97.48	-0.9	88.32	84.99	89.81	98.26	-0.9	1.66	98.39	89.61	85.28	90.39	99.14	100.18	97.48	–
World Ex. US (1833)	215.04	-0.0	194.83	187.48	198.12	192.35	0.1	1.87	215.05	195.86	186.40	197.57	192.06	220.18	175.30	201.44
World Ex. UK (2260)	280.46	-0.9	254.10	244.51	258.38	257.17	-0.8	1.51	283.07	257.81	245.36	260.07	259.19	287.02	234.24	241.02
World Ex. Japan (1987)	386.81	-0.8	350.45	337.24	356.36	380.18	-0.8	1.73	390.00	355.19	338.05	356.31	383.25	394.39	301.68	305.11
The World Index (2457)	289.35	-0.7	262.15	252.27	266.57	265.46	-0.7	1.65	291.51	265.50	252.68	267.83	267.26	298.57	241.30	246.21

 CONSTITUENT CHANGE 27/5/98: Name change: Genrale des Eaux to Vivendi (France). Latest prices were unavailable for this edition.

Emerging markets: IFC Investable indices

[illegible]

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 27

- X - Y - Z -

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
115	68 1/2	Xerox	1.44	1.4	23	12841	105 1/2	102 5/8	103 5/8	-3/4
66 3/4	54 1/2	Xtra Corp x	0.88	1.6	17	228	54 5/8	d52 1/2	55 3/4	-1/8
29 1/2	22 1/2	Yankee Egy	1.34	5.8	19	103	23 5/8	22 7/8	23 1/8	
52 3/4	34 5/8	York Int	0.48	1.0	44	1285	51 1/4	50	50	-1 1/4
15 1/4	6 1/8	Zapata	0.28	2.8	28	782	10 1/2	10 1/8	10 1/8	-1/8
30 1/2	24 1/2	Zenith Nat	1.00	3.6	17	52	28 1/4	28 1/8	28 1/8	-1/8
8 5/8	7 1/2	Zweig Inc x	0.73	9.9		119	7 1/2	7 3/8	7 3/8	-1/8
33 3/4	25	Zero x	0.12	0.4	17	145	[illegible]	[illegible]	[illegible]	-1/8
14 1/2	12 3/8	ZweigFd	1.32	10.8		1504	12 1/4	d12 1/8	12 1/4	-1/8
9 1/2	8 1/8	Zweig Toll x	0.84	9.6		1415	[illegible]	8 1/2	[illegible]	-1/8

Price data supplied by Extel, part of FT information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 26	May 25	May 22	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	8963.73	(c)	9114.44	9211.84 (13/5)	7580.42 (9/1)	9211.84 (13/5/98)	41.22 (8/7/32)
Home Bonds	104.83	(c)	104.75	105.48 (15/1)	104.42 (11/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3385.72	(c)	3390.59	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	278.40	(c)	280.06	291.18 (2/4)	262.66 (9/1)	291.18 (2/4/98)	10.53 (8/7/32)

DJ Ind. Day's high 9201.63 (9209.35) Low 8949.78 (9040.78) (Theoretical‡)
Day's high 9188.74 (9164.28) Low 8982.73 (9077.32) (Actual‡)

Standard and Poors	May 26	May 25	May 22	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1094.02	(c)	1110.47	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials¶	1275.17	(c)	1294.82	1311.48 (22/4)	1077.40 (9/1)	1311.48 (22/4/98)	3.52 (30/6/32)
Financial¶	133.00	(c)	135.03	140.83 (14/4)	110.65 (9/1)	140.83 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	566.26	(c)	574.78	585.82 (22/4)	487.47 (9/1)	585.82 (22/4/98)	4.64 (25/4/42)
Amex Comp.	720.33	(c)	730.57	753.67 (22/4)	646.41 (12/1)	753.67 (22/4/98)	524.20 (16/7/96)
NASDAQ Comp	1778.09	(c)	1805.00	1917.61 (22/4)	1503.22 (9/1)	1917.61 (22/4/98)	54.87 (3/10/74)
Russell 2000	455.08	(c)	462.89	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

■ RATIOS

	May 15	May 8	May 1	Year ago
Dow Jones Ind. Div. Yield	1.56	1.56	1.54	1.71
	May 20	May 13	May 6	Year ago
S & P Ind. Div. yield	1.30	1.30	1.33	1.67
S & P Ind. P/E ratio	30.98	31.08	30.86	23.39

US DATA

■ MARKET ACTIVITY

● Volume (million)	May 26	May 22	May 21
NYSE	541.410	444.730	551.970
Amex	30.703	20.906	25.498
NASDAQ	684.992	644.269	692.163

NYSE	May 26	May 22	May 21
Issues Traded	3,612	3,431	3,506
Rises	821	1,062	1,318
Falls	2,227	1,782	1,581
Unchanged	464	637	627
New Highs	63	47	75
New Lows	105	62	63

■ NYSE TRADING ACTIVITY — Volume : 541,410,000

■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
Chrysler	8,717,500	54	+⅞
Compaq	8,186,800	27	−⅛
USSurg	6,507,800	39¾	−⅝
Pfizer	4,605,100	103½	−2¼
Tycoin	4,488,600	53	−2
AT&T	4,041,700	59	+⅝
Cendnt	4,018,200	21¾	−¾
Telebras	3,859,300	103	−7
PhMorr	3,784,400	36	−⅜
Pepsico	3,571,500	40½	+⅛

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
Learonal	29¼	+1⅜	+4.8
Houghton M	34¾	+1⅜	+4.2
Pitney A	75⅝	+2⅝	+4.0
BCH	33¼	+1¼	+3.9
Downs			
Diebold	30	−8	−22.2
WallaceCS	27⅝	−7⅜	−21.2
Stiron	26½	−3	−12.6
Cinn Bell	32	−3	−10.8

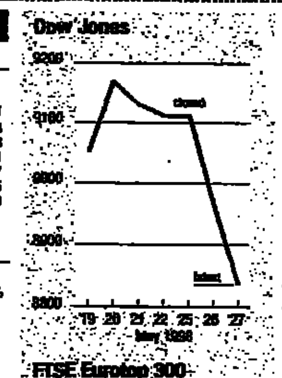
■ NASDAQ TRADING ACTIVITY — Volume :684,992,000

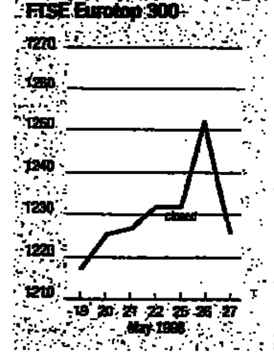
■ ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Day's change
DellCmp	21,477,900	83	−1
Intel	12,907,300	74	+¼
WrldCm	11,613,200	45¾	+½
Micsft	11,023,200	83¾	−1
CiscoSys	7,223,800	78	−⅜
Symantec	6,840,900	24¼	−3
MCI Cm	5,361,000	53	+⅝
ApplMat	5,107,200	32	−⅛
Mgostics	5,019,800	26	−2
Netscp	4,920,200	23⅝	−1

■ BIGGEST MOVERS

Tuesday	Close price	Day's change	Day's chge %
Ups			
AmstC	28	+4	+18.2
T R Fincl	44	+5⅜	+13.9
May&Spch	17	+1	+11.0
Jones Int	20¾	+1	+7.6
Downs			
ArbSftw	33⅝	−6¼	−19.6
HypnSftw	31½	−6⅝	−17.4
ITwoTch	55⅝	−10	−15.9
BoradwExpr	19	−3	−15.3





JAPAN

	May 27	May 26	May 25	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15684.29	15844.82	15783.12	17264.34	14664.44	38915.8	85.25

Day's high: 15824.53. Day's low 15548.90.

■ TOKYO TRADING ACTIVITY — Volume : 322,600,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Np Steel Cp	9,128,000	235	−2
Sumo Mtl Ind	8,684,000	218	−1
Bk Tk-Mitsbh	7,480,000	1455	−30
Ishiwa Sale	6,428,000	260	+2
Yuasa Cp	5,020,000	211	−6
Sakura Bk	4,213,000	428	−10
LTCB	3,986,000	211	−6
Hitachi	3,749,000	954	−2
Mitsbshi Hvy	3,500,000	495	−13
Kawas Mir	3,470,000	423	−9

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Yakitori Plan	771	+64	+9.1
Gourmet Key	908	+68	+8.1
Cesar Co	260	+18	+7.8
Ishii Im Wk	236	+14	+6.3
Downs			
Hitachi Elct	720	−100	−12.2
Nichiro Cp	133	−14	−9.6
Hitachi Powd	620	−56	−8.3
Nissin Cp	271	−24	−8.1

FRANCE

	May 27	May 26	May 25	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4017.37	4115.88	4108.71	4115.88	2862.54	4115.88	984.61

Day's high: 4031.85. Day's low 3990.95.

■ PARIS TRADING ACTIVITY — Volume : 595,622,870

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Usinor	2,100,525	101	−5.5
Rhn-Pinc A	1,083,458	326.8	−7.9
France Tel	1,009,231	336.5	−12.5
Alcatel Alst	800,095	1266	−22
Axa Gen Frac	748,432	384	−9
Bq Natl Paris	711,693	504	−20
Axa-UAP	671,574	685	−12
Euro Disney	593,721	10.2	−0.3
Renault	578,913	308.2	−11.8
Suez Lyons	488,710	1030	−19

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Rentokil	85	+24	+39.3
Mecalec	130	+17.5	+15.6
Part-Dieu	125	+11	+9.6
Arbel (Etabl)	60	+5	+9.1
Sarbo	235	+19	+8.8
Downs			
FDM Pharm	121.9	−13.1	−9.7
CEE (Cie Eqp)	243	−22.6	−8.5
Transiciel	545	−44	−7.5

GERMANY

	May 27	May 26	May 25	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5460.84	5644.29	5575.18	5644.29	4087.28	5644.29	931.18

Day's high: 5597.95. Day's low 5470.81.

■ FRANKFURT TRADING ACTIVITY — Volume : 16,486,910

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Daimler-Benz	1,708,237	197.7	−3.3
Deutsche Tel	922,688	48.95	
Commerzbk	632,543	70.6	−2.3
Veba	442,739	118	−4.75
Lufthansa	429,832	43.6	−1.8
BHW	393,952	33.1	+0.3
Bayer	367,627	78.6	−3.55
Siemens	358,985	118.25	−3.95
Deutsche Bk	320,905	156	−4.15
BASF	271,898	79.45	−1.6

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Sanz	92	+5	+5.7
Heidlbgr Drk	149.8	+7.5	+5.3
Hucke	45	+2	+4.7
Downs			
Ex-Cell-O	215	−31.5	−12.8
Technotrans	158.5	−14.5	−8.4
Moenus Text	14	−1	−6.7
1 & 1 AG	202	−14	−6.5
Babcock-BSH	131	−9	−6.4

UK

	May 27	May 26	May 25	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	5870.2	5970.7	(c)	6105.80	5068.80	6105.8	986.9

Day's high: 5970.7. Day's low 5839.9

■ LONDON TRADING ACTIVITY — Volume : 858,800,000

■ ACTIVE STOCKS

Wednesday	Stocks traded	Close price	Day's change
Rentokil	25,076,650	417	+2
Halifax	24,973,090	823	+48
Thomson Trvl	18,977,200	190½	−3
Centrica	14,170,680	101	+2
British Tel	11,313,150	655	+8½
Shell	10,375,110	455½	−7½
Ionica	9,580,392	32½	+8
S'tline Bchm	9,281,064	672	−20
Premier Frnll	9,058,218	374½	
Vodafone	9,033,024	677	+1

■ BIGGEST MOVERS

Wednesday	Close price	Day's change	Day's chge %
Ups			
Ionica	32½	+8	+32.7
SEC	91	+11	+13.8
Lawrie	4750	+500	+11.8
Downs			
Whitecroft	81	−27½	−25.4
Hall Eng	200	−57	−22.2
Tams (J)	28	−6½	−18.8
Westmount	227½	−47½	−17.3
Crabtree	57½	−12	−17.3

INDEX FUTURES

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1094.00	1084.50	−9.50	1094.60	1082.70	111,665	338,016
Sep	−	1106.00	−	−	−	13,237	38,446
■ Nikkei 225	**Open**	**Sett price**	**Change**	**High**	**Low**	**Est. vol.**	**Open int.**
Jun	15780.0	15600.0	−280.0	15800.0	15520.0	26,071	198,189
Sep	15800.0	15600.0	−290.0	15800.0	15530.0	686	15,603

Open interest figures for previous day.

■ CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	4008.0	4008.0	−103	4027.0	4003.0	N/A	28,145
Jun	3992.0	3987.5	−103	3995.0	3962.0	N/A	31,648
■ DAX							
Jun	5540.0	5450.0	−192.5	5556.0	5445.0	38,206	124,320
Sep	5582.0	5497.0	−194.0	5595.0	5494.0	1,095	18,392

■ OMX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	777.00	769.25	−19.75	777.00	766.00	36,588	133,274
Jul	774.50	774.50	−18.50	774.50	774.50	5	83
■ SOFFEX							
Jun	7600.0	7580.0	−130.0	7625.0	7535.0	6,215	21,174
Jul	7611.0	7582.5	−117.3	7611.0	7555.6	121	2,713

WORLD MARKETS AT A GLANCE

Country	Index	May 27	May 26	May 25	1998 High	1998 Low	Yield	P/E
Argentina	General	20379.09	20411.60	(c)	23485.47 23/3	18237.40 2/1	3.21	17.5
Australia	All Ordinaries	2687.0	2734.7	2727.8	2881.40 16/4	2542.40 12/1	3.35	19.9
	All Mining	618.7	638.1	637.3	713.10 23/4	582.20 13/1		
Austria	Credit Aktien	(d)	584.34	579.64	584.34 26/5	437.44 13/1	1.45	16.9

Argentina: Edged down on declines in Asia and Russia.
Australia: Weak overseas markets and bullion's fall soured sentiment. Resources sector underperformed and golds fell 3.7 per cent.

Country	Index	May 27	May 26
Hungary	Bux	7154.82	7407.50
India	BSE Sens.	3777.19	3875.06
	Crisil 500	749.98	749.96
Indonesia	Jakarta Comp.	418.97	434.06

Hungary: Shares pulled down by pessimism over Asia and Russia.
India: Foreigners were active sellers with tobacco conglomerate ITC [illegible]

[illegible]

[illegible]

THE NASDAQ STOCK MARKET

4 pm close May 27

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close May 27

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Bears bring record runs to grinding halt

WORLD OVERVIEW

The bears were out in force yesterday as Tuesday's late plunge on Wall Street and renewed economic worries in Asia and Russia sent share prices tumbling, *writes Philip Coggan*.

The 150-point fall in the Dow Jones Industrial Average on Tuesday – partly linked to earnings worries – set a discouraging tone for Asian markets. Adding to the negative sentiment was the downgrade by Moody's of the credit rating of five Japanese banks.

Then a warning from Hong Kong chief executive Tung Chee-hwa that economic growth could be negative and the announcement of a 12 per cent fall in annual retail sales meant Hong Kong briefly replaced Korea as the Asian market in the spotlight. The Hang Seng index fell 5.3 per cent.

The global team at BT Alex Brown warns: "Economists in the HK region have been exceptionally slow to adjust their forecasts to reflect the growing economic reality. Despite heavy downgrades, analysts have yet to factor an outright recession into their earnings forecasts."

BT Alex Brown adds that Chinese economic growth is slowing and devaluation of the renminbi remains a risk towards the year end.

"As a result of this risk, short-term rates in Hong Kong remain high. This will undermine banking and property stocks. Together they account for two-thirds of the Hang Seng index. With property developers now engaged in a price war, the outlook for the Hong Kong market is bleak," it said.

Europe had its own casualty in Russia, where speculation about the devaluation of the rouble prompted the central bank to triple interest rates from 50 to 150 per cent. The Russian stock market dropped 10.6 per cent in response.

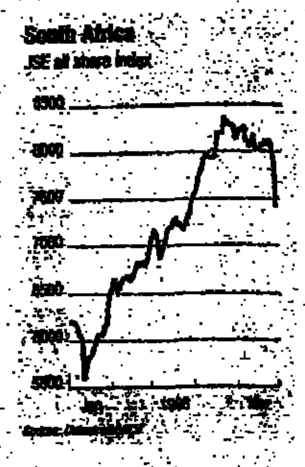
Another weak opening on Wall Street, with the Dow falling more than 100 points in the New York morning, added to the downward spiral. Latin American markets also took a hit.

And Barton Biggs, the Morgan Stanley strategist, said he was planning to cut the US and emerging market proportions of his model portfolio and raise the cash element. Mr Biggs cited a number of bearish signs, including deteriorating market breadth, lagging medium and small-cap stocks and troubles in tech stocks.

All of this had an inevitable impact on European bourses. Losses were in the 2-3 per cent range in most markets, bringing the record-breaking runs to an abrupt halt. European markets have gained around 27 per cent in dollar terms since the start of the year.

EMERGING MARKET FOCUS

Rand takes on the speculators



An increase in official interest rates in South Africa, triggered by the fragile rand, has cut a swathe through the Johannesburg stock exchange this week.

For most of this year, equities have roared ahead as investors discounted a rosy interest rate scenario – with possible cuts of up to two percentage points in key official rates, according to James Scott, at Société Générale Frankel Pollak.

However, the picture has changed dramatically this week with the Reserve Bank going to war against currency speculators.

Analysts are warning banks might have to raise their lending rates to the public if the turmoil in the currency market persists. Banks are trying to hold rates stable in the hope that the turbulence is temporary.

"If the repo rate remains this high for more than a week, it is likely banks will hike their prime rates," said Gordon Smith, analyst at Deutsche Morgan Grenfell.

The all share index reached a peak of 8,373.6 on April 21 – 35 per cent up on its opening level this year. Although the record high was followed by a spell of profit-taking, the underlying sentiment remained bullish as foreign investors continued to buy the South African interest rate story.

As if the sudden change in the interest rate outlook were not enough, the gold price also refused to play ball. The bullion price has dipped below $295, putting pressure on gold shares.

The downturn on world stock markets further depressed sentiment yesterday and the all share index closed 389.9 or 5 per cent lower at 7,452.2, taking its losses in two days to almost 6.8 per cent.

Bank shares, the darlings of the market for most of the year, took the biggest pounding as the investors fretted about the pressure on banks' margins. The financial index plunged 742.6 or 5.5 per cent to 12,712.8, bringing its decline to almost 7.8 per cent in two days.

The financial index peaked at 14,739.1 in mid-April, having soared 45 per cent from the beginning of the year. Big financial mergers and acquisitions, as well as interest rate hopes, had fuelled banks' popularity.

The outlook for equities depends on the rand's ability to hold its own against the dollar. So far, the central bank has managed to keep the rand at about R5.14 to the dollar, a loss of little more than 1 per cent in the past two weeks, but at great cost to its already threadbare gold and foreign exchange reserves.

It postponed using interest rates aggressively for as long as possible, trying to protect the currency through intervention.

Analysts are worried that the central bank might have spent as much as a third of its foreign exchange reserves defending the rand.

Kevin Brady at brokers Barnard, Jacobs, Mellet said: "The crucial issue for the markets is the amount of foreign exchange the central bank has used. The figure will be released next week, and if it is bad, confidence will take a dramatic knock."

Greta Steyn

US equities slide below 8,900 level

AMERICAS

Worries about Asia and US corporate earnings put Wall Street on the spot for a second day, sending the Dow Jones Industrial Average back below 8,900, *writes John Labate in New York*.

By early afternoon the Dow Jones Industrial Average had lost 105.38 or 1.18 per cent to 8,858.35, while the broader Standard & Poor's 500 index was down 10.17 to 1,083.85. The Nasdaq composite was off 24.16 at 1,753.93.

As the market experienced a second day of sharp losses, analysts were left to debate whether a widespread correction in US shares was underway.

Some believe the current downward slide will coax buyers back into the market. Arthur Hogan, chief market analyst at Jeffries & Co in Boston said 8,850 was an important technical level for the Dow and one worth watching.

"If we can close above that, it is a strong signal that the worst is behind us," he said.

Analysts were focusing more on rising worries in overseas markets.

"We're seeing a blueprint in front of us of how financial crises deepen and spread," said Hugh Johnson, chief investment officer at First Albany. "There's a lot of work that needs to be done to restore confidence in markets in Indonesia, Japan, Russia, and elsewhere."

The flight out of equities sent bonds higher for a second day and US Treasury prices climbed on. By early afternoon the benchmark 30-year bond had gained ¼ to 104¼, sending the yield down to 5.821 per cent.

Among component shares in the Dow, International Paper came off $1¾ to $47⅞, while Sears Roebuck fell $1⁹⁄₁₆ to $60⅞.

Netscape Communications bucked the trend, rising $1⅜ or 5 per cent to $25⅛ as investors continued to warm to Tuesday's announcement of a break-even result for the quarter ending April.

Most internet shares followed the general market lower, however, sending the American Stock Exchange's internet index down 2.47 to 316.05.

Computer parts maker Iomega lost $⅝ to $6⅛ after the announcement that the company's chief financial officer had resigned.

Transport stocks also traded lower. Northwest Air lost $2¼ to $46, while AMR fell $4¼ to $148⅛.

TORONTO fell steeply, hit by the weak trend on Wall Street and a slide for the bullion price that sent the heavyweight golds sector skidding lower.

At the noon calculation, the 300 composite index was down 112.96 or 1.5 per cent at 7,513.

With the bullion price sagging through the $295 level, golds moved lower across the board. Barrick fell 40 cents to C$28.25 and Placer Dome came off 20 cents to C$18.20. Teck Corporation lost 10 cents to C$17.75.

Financials were also in full flight, notably the banking sector, where sentiment has lately been marred by fears about higher interest rates.

Royal Bank of Canada shed 80 cents to C$85.50 and Canadian Imperial 95 cents to C$48.60. Bank of Nova Scotia lost 25 cents to C$37.95.

São Paulo pulled lower

SAO PAULO continued to stream lower as stock market shakeouts in Russia and across Asia trained the spotlight on Brazil's own economic shortcomings.

Blue chips plunged and at the midsession count the Bovespa index, which had tumbled 5.8 per cent on Tuesday, was off 327 or 3.5 per cent at 9,110.

"There is not a lot of volume around, but where there is action it is all on the sell side," said one broker.

Among market heavyweights, Telebrás fell 3.2 per cent to R$114.20 and Petrobrás 2.4 per cent to R$2054. Eletrobrás came off 2.3 per cent to R$34.69.

MEXICO CITY tracked Wall Street lower in early trading, with sentiment further weakened by a poor start for the peso in the foreign exchanges.

At midsession, the IPC index stood at 4,345.69, a decline of 2.4 per cent or 107.89. The index ended Tuesday's session 3.4 per cent lower.

Spain leads Europe's retreat

EUROPE

European equities, which have been probing record highs in recent sessions, were in headlong retreat yesterday with Frankfurt, Madrid and Milan all tumbling more than 3 per cent.

FRANKFURT ended just above its low for the session. The Xetra Dax index was off 173.01 or 3.1 per cent at 5,466.88 at the close of electronic trading. Financials led the way down.

Deutsche Bank fell DM6.60 to DM152.90 and Dresdner Bank came off DM3.75 to DM99.10 as investors fretted about the sector's exposure to Asian lending.

Allianz shed DM18.90 to DM573.50 in spite of revealing hidden reserves of more than $50bn. Munich Re gave up DM23.50 at DM816.

Among leading industrials, Daimler Benz was actively traded, losing DM3.50 to DM195. Technology stocks were mixed. SAP lost DM50 at DM955.10, but Deutsche Telekom turned in a defensive performance, dipping a modest 90pfg to DM49.20.

Sportswear leader Adidas-Salomon appeared to suffer from unfortunate timing, slipping DM4.80 to DM318.50 on news of promotion to the benchmark Dax index.

Heidelberger Druck fared better, rising DM7 to DM150 as investors learned that it had beaten car rental group Sixt for a place in the second-tier MDAX index.

PARIS fell 98.51 or 2.4 per cent to 4,017.37 on the CAC 40 index in below-average trading volume.

Banks were in the thick of the action with Société Générale and BNP, which are thought to have a combined exposure to Asia of more than $10bn, soaking up much of the selling in the sector.

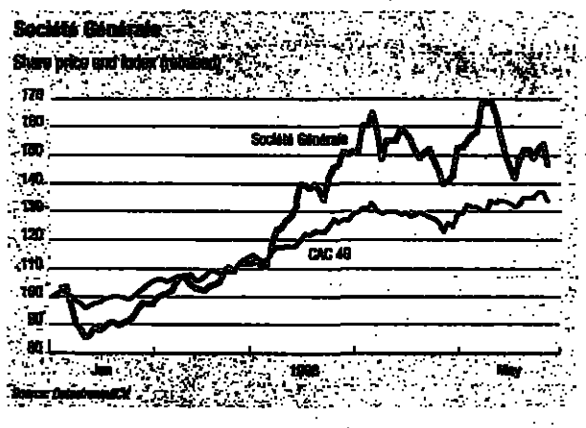
SocGen lost FFr57 or 4.5 per cent to FFr1,207 and BNP came off FFr20 to FFr504. LVMH, which has a large customer base in Asia, gave up FFr56 at FFr1,236.

Usinor, a strong market lately on broker optimism and Brazilian acquisitions, fell FFr5.50 to FFr101.

Synthelabo managed to avoid the backwash, adding FFr51 to FFr995 on positive broker comment following the news that the group plans to take control of a US drugs joint venture.

Among lesser caps, Havas Advertising fell FFr36 to FFr,2151 in spite of a forecast of minimum profits growth of 20 per cent for this year.

ZURICH also saw large losses among the heavyweight financials, and the



SMI index ended with a decline of 98.4 at 7,633.5. UBS shed SFr56 to SFr2,517 and CS Group lost SFr6.50 at SFr326.50. Swiss Re ended off SFr35 at SFr3,347.

Among industrials, ABB dipped SFr25 to SFr2,500, but Alusuisse continued to push higher on rumours of imminent corporate activity.

Ems-Chemie and BZ Group, two aggressive Swiss investors, have between them built up a stake of more than 16 per cent in the aluminium group.

AMSTERDAM closed lower on options-related selling by private investors, and the AEX index fell 18.69 to 1,198.21.

Fortis, the Belgo-Dutch bank, fell Fl 3.90 to Fl 123 in spite of a higher-than-expected first-quarter earnings announcement. It stood by its bid for Generale Bank of Brussels, following ABN Amro's counter bid on Tuesday.

ABN, the most active issue of the day, fell Fl 1.30 to Fl 50, while in Brussels, Generale rose BFr275 to BFr27,075.

KNP BT, the office products trader, bucked the trend and rose 60 cents to Fl 113.60.

MILAN was knocked down by a sell-off in blue chips and the Mibtel index declined 745 or 3 per cent to 24,130.

Fiat fell L170 to L8,107 following an announcement that it would be selling its chemical unit Snia BPD through an offer to private and institutional investors. Snia declined L182 or 6.8 per cent to L2,503 as investors had been expecting Fiat to sell the unit to a single corporate buyer.

Olivetti was the most active issue of the day, falling L47 to L2,600, while Banca di Roma lost L63 to L3,637. Credito Italiano retreated L408 to L9,976 while Montedison fell L81 to L2,464.

Benetton lost L687 to L38,350 on profit-taking. Its shares were bought up earlier before its shareholders meeting.

MADRID was depressed by worries over Latin American financial markets and the general index lost 29.86 or 3.3 per cent to 872.6. Fears that developing markets would be battered by the falls in Asia weighed on blue chips with large investments in Latin America.

Santander fell Pta300 to Pta7,690 and BCH declined Pta85 to Pta4,945. Telefónica, which was also hit by the announcement of its opposition to the government's proposed changes in telephone tariffs, declined Pta310 or 4.3 per cent to Pta6,850.

Endesa, the utilities major undergoing a privatisation programme, fell Pta185 or almost 5 per cent to Pta8,565.

STOCKHOLM lost ground led by Ericsson, which was hit by Asian weakness. The general index lost 71.45 or 1.9 per cent to 3,640.97.

Ericsson fell SKr6.50 to SKr220, while Astra, the drugs group, softened SKr3 to SKr161. Volvo, the carmaker, lost SKr3 to SKr251. Profit-taking eroded earlier gains in spite of the launch of the S80 luxury sedan scheduled for today.

HELSINKI sank 2 per cent as Nokia fell on Asian fears and forestry stocks were hurt by Tuesday's decline in the sector on Wall Street. The Hex index lost 106.92 to 4,857.94.

Nokia retreated FM7.50 to FM362 while UPM-Kymmene, the forestry group, lost FM4.50 to FM162.50. Enso eased FM1.40 to FM61. Hartwall, the brewer, lost FM4 to FM168 on uncertainty over the economic stability of Russia, one of its fastest-growing markets.

MOSCOW continued to lurch lower as the flow of negative news built to gale-force levels following a dramatic increase for official interest rates.

Determined to stave off a foreign exchange run on the rouble, the central bank lifted its marker rates from 50 per cent to 150 per cent. At the close of trading, the RTS index was off 10.6 per cent to 187.23, its lowest level since late 1996.

Written and edited by Jeffrey Brown, Emiko Terazono, Paul Gregan, and Nicholas Miller.

Hong Kong hits four-month low

ASIA PACIFIC

An official warning of negative growth for the territory pushed **HONG KONG** down to a four-month low. The news, combined with the steep overnight slide for US equities, left the Hang Seng index off 498.78 or 5.3 per cent at 8,983.43 in much improved turnover of HK$8bn.

The warning of economic contraction came as retail sales for March came in 12 per cent lower and sparked a wave of scare stories about the contents of a government first-quarter economic report, due tomorrow.

HSBC fell HK$9 to HK$188.50 and Cheung Kong HK$2.70 at HK$42.50.

Much of the day's selling was futures-driven with the May Hang Seng contract ending at a significant discount to the cash market at 8,880.

TOKYO fell 1.4 per cent on yen weakness, bank credit rating downgrades and the overnight shakeout on Wall Street, *writes Bethan Hutton in Tokyo*.

The Nikkei 225 average ended down 220.53 at 15,664.29, after falling from the opening high of 15,824.53 to briefly hit a low of 15,549.90. The Topix index of all first-section shares lost 9.88 to 1,222.34.

The banking sector was down 1.8 per cent as news of Moody's downgrades for five stocks, together with the watch-listing of a further four, combined with general worries over exposure to Indonesia.

CHANGES ON THE DAY

	% change
Hong Kong	-5.3
Karachi	-5.2
Bangkok	-4.1
Jakarta	-3.9
Bombay	-2.5
Manila	-2.3
Sydney	-1.7
Kuala Lumpur	-1.6
Tokyo	-1.4
Taipei	-1.4
Singapore	-1.3

Bank of Tokyo-Mitsubishi fell Y30 to Y1,455, Sakura Bank Y10 to Y426, Sumitomo Bank Y20 to Y1,305, Dai-Ichi Kangyo Y27 to Y840 and Industrial Bank of Japan Y20 to Y872.

One exception to banking gloom was Chuo Trust and Banking, which was up Y11 to Y417 after it announced a tie-up with HSBC.

Utilities and railways strengthened slightly as investors sought safe havens. The electricity and gas sector was up 0.18 per cent, and land transport climbed 0.17 per cent.

The continued weakness of the yen, which touched Y138 to the dollar at one stage, helped some but not all blue-chip exporters. Sony gained Y130 to Y11,850, Honda Y30 to Y4,690 and Toshiba Y17 to Y592, but Toyota was unchanged at Y3,480.

Hitachi lost Y2 to Y954 in heavy volume, in spite of announcing plans for a large share buy-back.

Turnover picked up from 278m on Tuesday to about 322m shares, but declining shares outnumbered gainers 785 to 314.

In Osaka, the OSE index lost 170.51 to close at 16,448.16 in volume of 8m shares.

JAKARTA dropped sharply as investors sold-off companies with connections with former President Suharto. Weakness in other Asian markets also prompted selling and the JSX index lost 17.09 or 3.9 per cent to 416.97.

The launch of investigations into favours extended to Mr Suharto's family and friends raised alarm over companies with Suharto links. Indofood, controlled by the Salim Group, which is headed by a close ally of Mr Suharto, was the leading loser of the day, falling Rp750 or 31 per cent to Rp1,675. Astra, the carmaker, fell Rp125 or 10 per cent to Rp1,075 and Indocement lost Rp100 to Rp2,900.

BANGKOK lost 4 per cent as foreign investors unloaded blue chips. Sentiment was also hit by the weakening yen and the composite index lost 14.42 to 340.12 led by financials.

Thai Farmers Bank fell Bt5 to Bt56 while Bangkok Bank lost Bt5 to Bt64.50. Securities One lost Bt0.10 to Bt4.60, while Krung Thai Bank declined Bt0.30 to Bt7.50.

SYDNEY fell steeply, pushed down by weak golds, regional worries and the overnight falls on Wall Street. The golds sector retreated 3.9 per cent. The All Ordinaries index lost 47.7 or 1.7 per cent to 2,687.0.